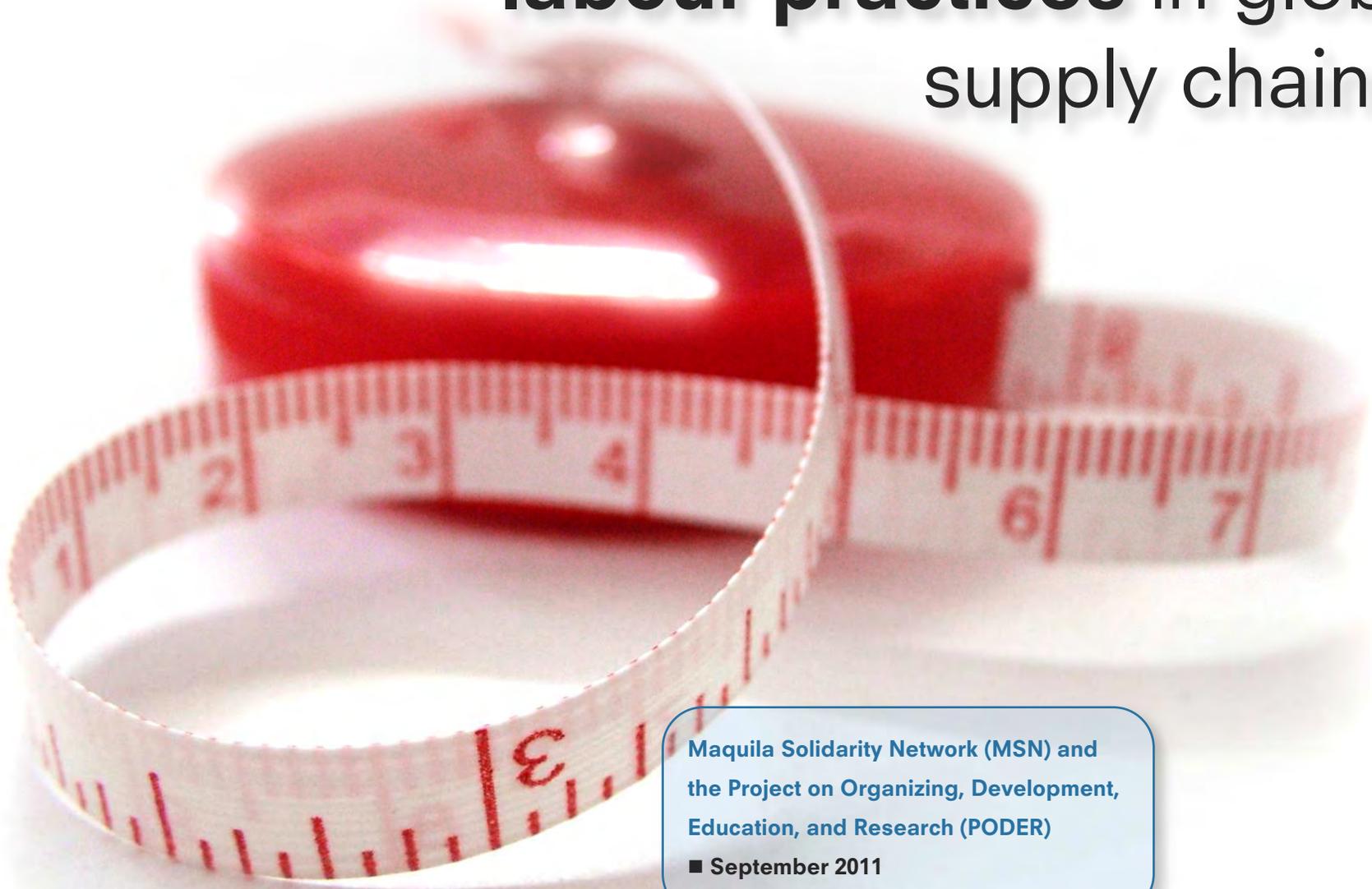


Can **CSR ratings** help improve **labour practices** in global supply chains?



Maquila Solidarity Network (MSN) and
the Project on Organizing, Development,
Education, and Research (PODER)

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The **Maquila Solidarity Network** (MSN) is a labour and women's rights organization that promotes greater corporate accountability for labour practices in global supply chains and supports the efforts of workers employed in those supply chains to achieve improved wages and working conditions and a better quality of life. Since 1994, MSN has been working in solidarity with women's and labour rights organizations in Mexico, Central America and Asia.

A major part of MSN's work has been researching and analyzing trends and developments in garment and other consumer products industries and in governmental and nongovernmental regulatory initiatives aimed at improving labour standards compliance and respect for workers' rights.

For more information:

www.maquilasolidarity.org



The **Project on Organizing, Development, Education, and Research** (PODER) is a not-for-profit, non-governmental organization whose mission is to improve corporate accountability in Latin America and to strengthen civil society stakeholders of corporations as long-term accountability guarantors. PODER accomplishes this by leveraging business intelligence, transparency technology, and community organizing to ultimately build a citizen-led corporate accountability movement.

For more information:

www.ashoka.org/fellow/cokelet_ben and

www.echoinggreen.org/fellows/ben-cokelet

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Introduction



On March 1, 2011, some of the world's largest apparel and footwear corporations announced the creation of a new Sustainable Apparel Coalition, an initiative to develop an industry-wide index that would measure and evaluate the environmental and social impacts of apparel and footwear products. The initiative promises to draw on the experience of other efforts to rate social and environmental performance to create a "single, open, industry-wide standard of measurement" of everything from water and energy use to greenhouse gas emissions, waste and labour practices. Although few details are available at present, the Coalition intends to release a pilot version of their index for comment later this year.¹

Arriving at a comprehensive, reliable method of rating the social and environmental impacts of a company or product would be a promising development for companies, consumers and investors, especially if that rating system has buy-in from a significant number of influential companies. Rating systems are potentially powerful tools because they simplify large quantities of complex data into an easy to digest format, assigning a numerical score or letter grade to represent the company's standing against a set of social or environmental indicators. They can provide users, such as consumers, investors, media and labour or environmental organizations, with a simple method of comparing companies and separating the "leaders" from the "laggards."

Yet given the vast and rapidly changing nature of global supply chains that produce apparel, footwear and other consumer goods, rating a company or a product on its environmental impacts is no easy matter. Rating a company's or product's social impacts – and more specifically, whether the company is respecting the rights of the workers who make the product – is even more complex.

The Sustainable Apparel Coalition is certainly not the first effort to rate companies or products on their environmental and social impacts, including labour issues. Over the past decade, there has been a proliferation of efforts by various actors, including companies, commercial services and non-governmental organizations (NGOs), to rate, rank and measure companies on a range of corporate social responsibility (CSR)² issues. A recent report by the UK-based CSR consultancy SustainAbility identified over one hundred CSR rating systems, a significant number of which were developed after 2005.³

This proliferation of CSR rating systems reflects an increasing interest by corporations, ethical investors, civil society and consumers in identifying reliable, consistent, effective and credible metrics that provide public recognition and material rewards for genuine progress on CSR performance.

As organizations concerned with the rights of workers in global supply chains, the Maquila Solidarity Network (MSN) and the Project on Organizing, Development, Education and Research (PODER) have paid close attention to efforts to rate companies on their supply chain labour

practices. In this paper, we examine some of the benefits and drawbacks of using rating systems to drive improvements in supply chain labour practices, using examples from a number of rating initiatives that take very different approaches to rating company policies and practices. These include rating systems designed and managed by labour rights NGOs, such as Labour Behind the Label (LBL) in the UK; multi-stakeholder initiatives (MSIs), such as the Ethical Trading Initiative; shareholder advocacy organizations, such as As You Sow in the US; and companies themselves, such as Wal-Mart.

Some of the rating initiatives cited in this study, such as the Ethical Trading Action Group's (ETAG's) Transparency Report Cards, in which MSN was involved, are short-term projects that were developed to influence companies at particular moments in time. Others, such as the GoodGuide, are more institutionalized and are designed to rate and compare corporate policies and practices on a year-by-year basis in order to provide consumers comparable information that will assist them in making purchasing decisions. A few of the systems we examine are still at the design stage, such as Wal-Mart's Sustainability Index, but are of interest because of

“The key to ratings systems becoming more effective in ratcheting up compliance is moving beyond company self-reporting and better capturing on-the-ground realities.”

Tim Connor, former Labour Rights Advocacy Coordinator, Oxfam Australia

their potential reach and/or the new approaches and tools they are developing.

Short descriptions of many of the rating systems we reference appear throughout this document, with links to additional information. Longer descriptions of eight systems with different methodologies, audiences and objectives are included in the **Appendix**.

Not all of the systems we refer to are concerned with labour rights in global supply chains. Climate Counts, for example, focuses exclusively on environmental issues while Wal-Mart's Sustainability Index and the GoodGuide cover a combination of CSR issues. Although we pay greater attention to rating systems that more explicitly address labour rights, we felt that examples from other systems helped to illustrate problems and potential solutions that were common to all rating systems.

Similarly, while most of the rating systems we reference in this report relate in some way to labour rights in apparel and footwear supply chains, many of the lessons learned from these

systems are also applicable to other industries.

This paper purposely does not attempt to “rate the rating systems,” nor does it offer a broad survey of existing systems or attempt to arrive at definitive conclusions about rating systems in general. Not only are there hundreds of different systems with a wide variety of approaches, but more importantly the differing focus, intent and audience for each system makes direct comparisons between them relatively meaningless. Instead, this paper is meant to be a discussion piece that we hope will inform the continuing debate regarding the role, value and effectiveness of rating systems as tools to positively influence company compliance with CSR standards and benchmarks, especially those related to labour issues.

In preparing *Can CSR ratings help improve labour practices in global supply chains?*², we interviewed CSR experts, representatives from apparel companies that have been rated on supply chain labour issues, labour rights advocacy groups and rating sys-

tem developers. While support for the rating systems approach varied, all of those we interviewed recognized that there are important challenges and limitations in current rating systems.

“I'm interested in ratings systems as a means to augment existing efforts to exert influence on companies to respect labour rights,” says Tim Connor, former Labour Rights Advocacy Coordinator of Oxfam Australia.

“More effective government regulation is critical, but voluntary efforts like ratings systems can still play some role in ratcheting up compliance with labour standards, particularly if the rating focuses on key issues such as trade union rights.”⁴

“But,” he adds, “the key to ratings systems becoming more effective in ratcheting up compliance is moving beyond company self-reporting and better capturing on-the-ground realities.”

Those that are more critical of rating systems, such as Scott Nova, Executive Director of the Worker Rights Consortium (WRC), argue that these systems, especially those implemented by

companies, create a “moral hazard,” because they give audiences a false sense of security regarding actual company progress on CSR in industries in which none of the companies is in compliance with minimum labour standards.

“Rating systems, generally, are putting the cart ahead of the horse,” says Nova. “They tend to focus on technical solutions to what are actually fundamental political problems. Our efforts should remain focused on identifying the key structural issues that result in the exploitation of workers.”⁵

However, even those who question the validity of rating individual companies when labour rights abuses are an industry-wide problem recognize that with or without their support rating systems are proliferating.

The paper is divided into three sections. In **Section A**, *Designing ratings: what’s being rated and how is it measured?*, we identify some of the challenges of designing and maintaining accurate and effective rating systems, using examples

from a cross-section of existing systems. We raise questions about ratings, including how well they reflect actual practices on the factory floor, the relevance of management systems, the weighting given to particular issues, the level of transparency needed and the use of incentives to motivate positive action. We also examine some innovative approaches being taken by different systems to overcome those challenges.

In **Section B**, *Reaching the right audience at the right time*, we look at how different systems communicate data to their particular audience(s) and how that data can be used. We then focus in on ways in which new technological innovations could help to more effectively communicate the findings of rating systems to the target audience(s) in a timely and accessible manner.

In the **Conclusion**, we offer our overall reflections on CSR ratings and recommendations concerning some of the issues that need to be addressed to make them more effective and useful. We conclude with a set of questions that rating systems design-

ers, investors, labour rights advocates and consumers can ask themselves in order to gauge the effectiveness and usefulness of the various rating systems on offer – and those that are still to come.

As the debate on the role, value and effectiveness of rating systems continues to unfold, interest in ratings will likely continue to grow, along with the number of rating systems. The issue is not whether rating systems are good or bad, but instead what principles and characteristics can make these systems more or less credible and effective in driving progress on labour standards compliance in global supply chains and whether there are opportunities to make use of these tools to promote deeper change.

We hope this paper will make a positive contribution to this debate by highlighting what we view as some key challenges facing rating systems that address supply chain labour rights issues and how some rating systems have tried to overcome, or at least minimize, those challenges.

“Rating systems, generally, are putting the cart ahead of the horse. They tend to focus on technical solutions to what are actually fundamental political problems.”

Scott Nova, Executive Director, Worker Rights Consortium



A **Designing ratings:**
What's being rated
and how is it measured?

Different goals and audiences

As a general rule, CSR ratings systems have a shared goal of enabling users to differentiate between companies that are making genuine progress on CSR performance and those that are not. Beyond that, CSR rating systems differ in their objectives and intended audiences, and those differences are reflected in the methodology and design of each system.

Rating systems can be designed with a variety of strategic objectives in mind, including:

- Opening up possibilities for engagement with companies on key issues;
- Setting the CSR agenda and framing the issues for companies;
- Affecting reputational risk for companies (e.g. through positive or negative media);
- Impacting the company materially (e.g. through investment or consumer purchasing); and
- Developing credible, tested ways of measuring performance that could eventually be used for regulatory measures.

It is therefore difficult to make broad generalizations about the effectiveness of rating systems as a whole or to judge the merits of one system over another, since not all systems are designed to achieve the same goals.

For example, some rating systems, such as the **GoodGuide** (see box, p.6), an e-tool to rate products across a broad range of social responsibility criteria, focus on providing consumers with information to make ethical purchasing decisions. For Rhonda Evans, one of the intellectual authors of the GoodGuide, “the fundamental point of the Guide is to become the central repository

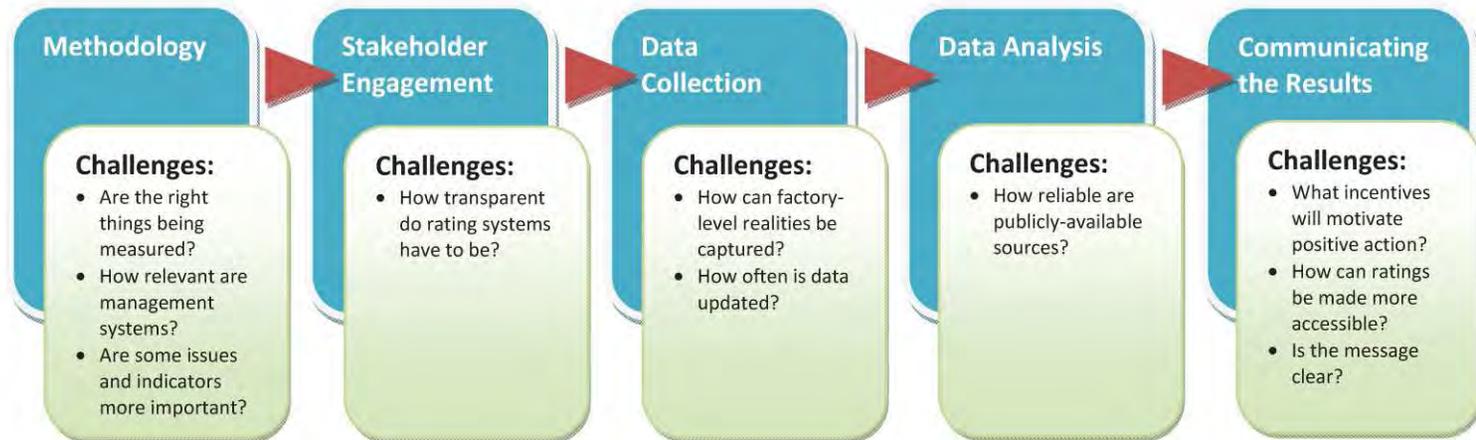
of the best information available and then to provide a high level view to consumers so that they are able to make purchasing decisions without having to read an 80-page report.”⁶

To be effective, such ratings must be easily accessible (ideally at the point of purchase), timely, reliable, understandable (using simple number or letter grades or rankings) and comprehensive (incorporating a wide range of CSR concerns into one system).

Other systems, such as As You Sow’s **Apparel Supply Chain Compliance reports** (see box, p.7), focus on providing social investors with “best-in-class” rank-

From methodology to messaging:

A few of the challenges of designing a rating system this paper raises.



ings or information that facilitates positive or negative screening. For that reason, they can offer more complex and substantial information than those designed for the average consumer. They may also have a narrower focus on issues, indicators and sectors most relevant to investors.

In contrast, Sam Maher, of Labour Behind the Label, a UK NGO that conducts the annual **Let's Clean Up Fashion** report (see box, p.13), sees their ratings as a method of highlighting strategically important issues with the media and impacting the policies and practices of companies in a specific sector by increasing reputational risk, not just as a tool to assist consumers in making purchasing decisions. "A rating system is not a panacea," Maher says. "Ratings can only be effective within the framework of a specific campaign that puts pressure on the companies," she adds. Labour Behind the Label's media and campaign focus allows for more selective subject matter and the use of more qualitative data.⁷

Common challenges

Evaluating the merits of rating systems based on a strict comparison of their different methodologies without understanding their overall goals is therefore not a particularly useful exercise. However, there are common challenges that face rating systems designers generally that should be considered before initiating a rating system as a tool to ratchet up compliance with labour standards in company supply chains. Some of these challenges include:

1. How reliable are publicly-available sources of data?
2. What's being measured – management systems or labour practices?
3. How relevant are management systems?
4. How can workplace realities be incorporated into ratings?
5. Are some issues and indicators more important than others?
6. How transparent do ratings systems have to be?
7. What incentives will motivate positive action?

GoodGuide:

The GoodGuide rates consumer products on health, environment, and social performance. The ratings are available on its website and through a smart-phone application which provides access to the ratings by scanning the barcodes of products. To date, the Guide has rated over 100,000 products produced by over 1,500 companies. Data for the Guide's ratings are collected and analyzed based on self-reported public company data, as well as third-party sources such as media outlets, socially-responsible investment analysts, government agencies and NGOs.

More information: www.goodguide.com

1. How reliable are publicly-available sources of data?

Although various rating systems analyze issues differently, they generally rely upon the same sources of data:

- public reports issued by companies (either voluntarily or as per regulatory requirements);
- public reports of multi-stakeholder initiatives (MSIs) of which companies are members; or of independent monitoring organizations, such as the Worker Rights Consortium (WRC);

- surveys completed by companies about their CSR policies and/or practices;
- media reports; and
- NGO or trade union reports.

The positive side of utilizing only publicly-available data for ratings is that it creates incentives for companies to increase their public disclosure of CSR-related commitments and activities. In fact, motivating companies to be transparent about their supply-chain labour policies and prac-

"A rating system is not a panacea. Ratings can only be effective within the framework of a specific campaign that puts pressure on the companies."

Sam Maher, Labour Behind the Label

tices was a primary objective of both **Transparency Report Card** systems (see box, p.8).⁸

The downside of using only publicly-available data is that ratings may give a mistaken impression that some companies are making significant improvements in labour standards compliance merely because they are reporting more one year than in the previous year. Such ratings may also underestimate the efforts of companies less committed to transparency. SustainAbility, which is currently preparing a four-phase “Rate the Raters” report, writes that while a company’s willingness to be more open with information is an issue, “we perceive a danger that,

as the number and depth of ratings increases over time, raters may reward those companies with greatest capacity and appetite to respond to ratings requests rather than the companies with the best performance.”⁹

Further, until there are more widespread mandatory reporting requirements for social and environmental criteria, regular public reporting is unlikely to be done by more than a handful of leading public companies (and rarely by privately-held companies). In addition, the range of criteria or key performance indicators (KPIs) being included or excluded in those reports makes comparison between companies very difficult.¹⁰

“We perceive a danger that ... raters may reward those companies with greatest capacity and appetite to respond to ratings requests rather than the companies with the best performance.” SustainAbility, **Rate the Raters** report

2. What’s being measured – management systems or labour practices?

While consumers, and even some investors, may assume that CSR rating systems measure actual corporate practice, including labour practices at the workplace level, for the most part existing rating systems have limited access to reliable, timely and comprehensive data about labour practices in global supply chains.

“On the ground realities remain a real black box,” says GoodGuide’s Rhonda Evans.

Instead, most systems rate secondary data, such as whether a company has appropriate management systems in place that, presumably, will have a positive effect on conditions and practices at the workplace level, or whether

the company has made commitments to take certain steps toward achieving labour standards compliance in their global supply chain.

If reliable, timely and comprehensive data about actual labour practices on the ground is difficult to acquire, rating system designers and managers are faced with two fundamental challenges:

- How relevant are the management systems and commitments that are being rated to actual working conditions at the factory level?
- Are there other, more selective ways that on-the-ground realities can be incorporated into ratings?

As You Sow’s Apparel Supply Chain Compliance Programs report:

The Apparel Supply Chain Compliance Programs rating was published by As You Sow, a shareholder advocacy NGO, in November 2010. It provided a comparative analysis of the supply chain social compliance programs of 15 apparel companies publicly traded in the United States. The ratings, which were aimed at socially-responsible investors, were based on survey responses by the participating companies.

It is not clear whether As You Sow intends to repeat the exercise in the future.

More information:

www.asyousow.org/human_rights/labor_transparency.shtml

3. How relevant are management systems?

Even if there is a causal connection between good management systems and good outcomes, are rating systems actually rewarding the right management systems and commitments – the ones that have the most significant impacts on the factory floor, rather than those that are more easily measurable, but not particularly effective?

Most rating systems, for example, give points to companies for having a code of conduct covering labour standards in their supply chain, and for evidence that the company conducts social compliance audits in its supplier factories. But the evidence that codes of conduct and auditing produce improvements in wages and working conditions is slim at best.¹¹

And even if codes are a necessary part of an effective social compliance program, not all codes are equal – often key international labour standards are absent or their language carefully modified, rendering them extremely weak, if not meaningless.¹² For example, while the Ethical Trading Action Group's Transparency Report Card did make a distinction between codes based on their content, very few

Transparency Report Cards:

The Ethical Trading Action Group (ETAG) and Oxfam Hong Kong separately produced "Transparency Report Cards" (TRCs) which used the same system to rank major apparel companies on their level of public disclosure on supply chain labour rights issues. The Maquila Solidarity Network (MSN) produced two transparency reports for ETAG, one in 2005 and another in 2006. Oxfam Hong Kong also produced two reports, one in 2006 and a follow-up in 2009. Although the system promoted higher standards and best practices in management systems, it only credited companies for programs and results which were communicated publicly, in order to promote increased transparency. ETAG does not intend to produce new ratings in the future. Oxfam has not committed to any future ratings.

More information:

www.maquilasolidarity.org/node/230

www.oxfam.org.hk/en/transparencyreport.aspx

rating systems assess the language of code provisions, and most accept the company's word that their code provisions are consistent with ILO Conventions.¹³

Determining which management systems are vital to creating socially compliant supply chains is no easy matter, and while there are some general similarities in the elements of management systems CSR rating systems seem to favour (e.g. codes of conduct, social auditing, company board oversight mechanisms), some systems have tried to credit more innovative approaches.

The GoodGuide, for instance, has recently introduced new apparel product ratings which

measure whether apparel companies have policies addressing their own purchasing practices (such as making last-minute changes to orders) which might negatively impact a factory's ability to comply with labour standards. As You Sow rates companies on whether they conduct internal assessments of purchasing practices. As You Sow also rated whether companies grant preferential treatment to suppliers that meet social compliance criteria, essentially creating economic incentives for improving labour practices.

ETAG's Transparency Report Card gave added points to companies that entered into frame-

work agreements with Global Unions in their sector, on the grounds that "ongoing review, dialogue and negotiation between the company and the Global Union... is preferable to voluntary engagement" and that the "existence of a framework agreement also indicates that a company has an open attitude toward democratic trade union representation."¹⁴

The Ethical Trading Initiative (ETI), which rates the CSR progress of ETI members in its new **Management Benchmarks** (see box p.9), rewards companies for improvements in their management of labour standards compliance within their supply chains. It designates levels of progress amongst its corporate membership for companies that devote more resources and take more steps to achieve compliance over time. Some innovative measures which are not common to most other ratings include whether the company:

- engages in multi-stakeholder projects, based on the recognition that labour rights issues are multi-faceted and for the most part are not resolvable in isolation;
- establishes long-term, stable supplier relationships;
- establishes terms of trade – including prices – that allow

Ethical Trading Initiative's Management Benchmarks:

The Ethical Trading Initiative (ETI) is a multi-stakeholder initiative focused on improving working conditions in global supply chains.

The ETI recently launched the Management Benchmarks to systematize its expectations and evaluation of member companies. Companies are evaluated annually based on self-reported, non-public data, which is reviewed and, in some cases, verified by ETI. The Management Benchmarks are especially interesting as most multi-stakeholder initiatives (MSIs) have not previously recognized varying levels of progress amongst their membership, which allows the MSI to identify advanced steps in labour rights compliance programs rather than only minimum requirements.

Ratings are not publicly available.

More information:
www.ethicaltrade.org/resources/key-eti-resources/eti-management-benchmarks

- suppliers to meet labour standards;
- works with local stakeholders to ensure workers are given training on their rights at work; and
- has an increasing number of suppliers with formal relationships with trade unions.

One rating system that measured company commitments to meeting a set of targets rather than management systems or outcomes is **Clearing the Hurdles**. Published in early 2010 by the international Play Fair (at the Olympics) campaign (see box, p.10), Clearing the Hurdles rated eight leading sportswear brands on their responses to a set of time-bound demands put forward by the campaign. The system used red/yellow/green ratings to assess whether the company was willing to take specific steps to tackle systemic labour rights problems in their supply chains.

One positive outcome of that campaign is the recent signing of a Trade Union Rights Protocol which was negotiated between Indonesian trade unions, a number of sportshoe and sportswear suppliers with factories in Indonesia, and Nike, adidas and Puma. The protocol sets out agreements for the practical exercise of union

rights in Indonesian sportswear facilities.¹⁵ Tim Connor suggests a rating scheme should give Nike, adidas and Puma some points for becoming involved in that process, but only if the trade unions involved report that the brands are taking serious steps to ensure their suppliers respect the protocol.

4. How can workplace realities be incorporated into ratings?

“We are still a long way from getting systematized on-the-ground factory data,” says Conrad MacKerron of As You Sow. He notes that infrastructure is often lacking to generate and process reliable factory-by-factory data. The fact that Disney alone says it has 24,000 active facilities makes the task even more challenging. He also points to inconsistencies in auditing standards. “Since auditing is usually operated by brands that provide from zero to very limited transparency, we have to trust they are diligent and credible,” he says. “But we shouldn’t refrain from trying new approaches to evaluating performance just because it’s a daunting situation; we need to press for more incremental steps especially on disclosure that can

lead to progress over time on these issues.”¹⁶

As MacKerron points out, even if reliable data on working conditions in some factories were available, the sheer volume of factories being used worldwide, and the continually shifting nature of supply chains, makes it nearly impossible to rate companies based on factory conditions. The resources and time required to collect reliable and comprehensive data at that level is clearly a deterrent to most raters. Further, even if social audits provided accurate snapshots of working conditions in selected factories at any particular moment in time, there would be no guarantee that those conditions remained the same the next year, month, or even day.

Yet, for ratings and rating systems to have substance and credibility they must incorporate and reflect on-the-ground realities. If they fail to do so, the issues and concerns of workers will be conspicuously absent from CSR ratings, and the workers who make the products for the companies being evaluated will be marginalized and excluded from rating systems.

CSR ratings based solely on management systems can also have the perverse effect of deflecting criticism of a company at

a moment when it is the subject of a negative report and/or public campaign regarding egregious violations in one or more of its supplier factories. For instance, US auto parts maker, Johnson Controls, was recognized by Jantzi Research Associates as one of **Canada's Top 50 Most Responsible Corporations** for its environmental, social and governance practices at a time when the company was aggressively opposing worker attempts to

form an independent union at one of its factories in Mexico.¹⁷

In order to address this problem, some rating systems have attempted to incorporate specific workplace realities in their narrative reports, which may not impact on the ratings themselves, but are raised in public communications.¹⁸ Others have developed metrics to quantify media reports, either positive or negative, that capture problems at the factory level.

Clearing the Hurdles:

The “Clearing the Hurdles” rating system was developed by the Maquila Solidarity Network for the international Play Fair (at the Olympics) campaign.

The “Clearing the Hurdles” rating was an online tool to publicize and evaluate commitments from eight sportswear brands on a set of actions proposed by the Play Fair campaign to address four “hurdles” blocking progress on labour rights in their supply chains: an anti-union environment in supplier factories; poverty wages; precarious work; and factory closures.

Rather than focusing on general management systems, labour standards, codes of conduct, or actual workplace conditions, the system was based on the understanding that the four hurdles were problems in all sportswear supply chains and the challenge was whether brands were willing to undertake serious actions to address them. Each brand’s response on Play Fair’s proposals was rated using a simple “traffic light” system, with green indicating a positive commitment to act, and red indicating a refusal to commit.

The rating was carried out once, prior to the Vancouver 2010 Olympics, and may be updated for the 2012 Summer Olympics.

More information: www.clearingthehurdles.org

Using data from media reports

One example of a system that assesses companies based on media reports is the Good Electronics network’s **ProcureITfair** online rating of electronics companies. The network publishes an online, real-time overview of positive and negative news items related to the social and environmental performance of the world’s largest computer brands. Each news item is given a “thumbs up” or “thumbs down” rating based on the ProcureIT-Fair campaign’s evaluation of the role of the company in question as described in the news story.¹⁹ The GoodGuide also factors in positive and negative media stories in its ratings.²⁰

Monitoring and incorporating the findings of media reports is one simple method of adding information on actual conditions at the factory level to CSR ratings. However, reliance on media reports has a number of limitations. Media exposés generally focus on factories producing for large, well-known brands and on hot-button issues, such as child labour and forced labour. Reliance on such reports therefore might give an inaccurate picture of the most common and serious labour rights violations, limit the focus to companies considered newsworthy or, perversely, to

those companies that have been more transparent about their supply chains. Reliance on media reports could therefore restrict the rating organization’s ability to choose or weight the issues. News reports may also miss significant developments that are difficult to distill into news-worthy messages.

“Media stories are particularly challenging,” says Geoffrey Geist, Strategy and Communications Manager at Gap Inc. “They generally focus on large companies, do not give a complete context of the issues and fail to give equal time to the solutions. Because of this, often media coverage does not accurately reflect the CSR performance of a company.”²¹

Geist speaks from experience. In August 2009, the *Sunday Times* published a damning exposé from Lesotho, linking Gap and Levi’s to industrial waste that was being picked over by children looking for combustible materials in the local dump, as well as wastewater emissions that polluted local streams.²² What the media exposé didn’t report, however, was that Gap and Levi’s had been working closely with trade unions and the government of Lesotho for years to improve working conditions and support the country’s garment industry.

Media exposés can also give the impression that one company has issues in their supply chain that are not shared by other companies. For instance, a media exposé that targets a high-profile North American brand for excessive working hours in one of its supplier factories in China may fail to report that other brands are also sourcing from the same factory or that hours of work violations are endemic to almost all garment factories in China. Unless a rating system is prepared to rate all brands sourcing from China as being in noncompliance with hours of work standards, it might make more sense to rate companies on the basis of the steps being taken to address this endemic problem, including companies' own purchasing practices that encourage excessive working hours.

Tracking reported violations

Rather than relying solely on management systems and media reports, some rating systems are attempting to track the persistence of labour rights violations and/or progress made in remediating such violations. Social Accountability International's (SAI) new **Social Fingerprint**[®] system (see box, right) rates not only whether the company has management systems in place to re-

spond to common workplace violations, but also whether such violations occur on a frequent basis.

The ETI's Management Benchmarks, SAI, and Wal-Mart (which plans to rate vendors using its new **Sustainability Index** – see box, p.15) all have access to data from factory audits carried out by company or third-party auditors, which could allow for more meaningful input on factory conditions in their rating systems. It is unclear at this point whether and how these will be incorporated into the ETI Management Benchmarks or the Sustainability Index.

Under a new internal tracking system that the Fair Labor Association (FLA) intends to roll out in late 2011, company self-assessment, factory audit and remediation data will be collected in a powerful database, which will allow aggregation of results by brand, by country, or by issue.

Depending on the level of public access to data offered by the FLA, this type of database could be used to chart a particular brand's progress on eliminating excessive overtime in supplier factories, for example, based on brand, supplier and FLA audit results and other data. It could be a valuable source of data for tracking factory-level progress, albeit only for companies engaged in

Social Fingerprint[®]

Social Accountability International's (SAI) Social Fingerprint[®] Program measures processes and management systems of suppliers and brands. The focus of the system is on labour standards compliance. The system creates a baseline rating of the company's social compliance systems using an online company self-assessment, and then proposes steps to reach a higher rating, supplemented by online training materials available from SAI. The self-assessment may be followed by remote evaluation and field verification by SAI.

Some of the supplier management systems being promoted through the rating system include functioning grievance systems, corrective action programs, engagement with stakeholders (including workers' organizations), training and monitoring. There is a separate set of criteria for brand buyers, which rates things like the internal integration of social compliance and sourcing programs, complaint systems (including third-party complaints), the aggregate performance of their suppliers, and purchasing practices.

Rating results are not publicly available.

More info: <http://socialfingerprint.org/index.html>

the FLA system, and only if much of the data is made publicly available in some form.

An external rating system could also build upon the work being done by these multi-stakeholder initiatives by giving credit to companies for disclosing their level of achievement in either the ETI's Management Benchmarks or the SAI's Social Fingerprint[®] systems, and for achieving higher performance within those systems.²³

Tracking corrective action

Building space within ratings for actual workplace-level data is clearly essential, but in order to do so, rating organizations must deal with concerns about the reliability of sources and data. Given known challenges concerning the reliability of current factory audits and the accuracy of audit reports,²⁴ it would be a serious mistake to depend too heavily on audits as the only source of information on "on-the-ground" realities.

Tim Connor suggests that other indicators would better capture some of what's happening on the ground. "A rating could include looking at how disputes concerning freedom of association in the supply chain are resolved and also review what happens when those efforts succeed, i.e. whether factories that successfully implement corrective action on freedom of association (for example by reinstating trade union leaders who have been wrongfully dismissed) are ultimately shut down." He also suggests there could be space within ratings for subjective assessments by trade union leaders, labour rights activists and labour rights experts in producing countries regarding their experience with various companies.

The GoodGuide's new apparel ratings appear to be incorporating this approach by rating how well a company has responded to reports of labour rights violations in its supplier factories. The Worker Rights Consortium (WRC) is used as a source of information on this indicator. According to the Guide, "[b]rands receive positive

credit for engaging with a supplier to respond to violations found by WRC (rather than abandoning a problematic factory), for obtaining remediation for workers affected by violations, and for supporting the development of independent dispute resolution mechanisms or recognizing worker association and collective bargaining rights."²⁵ **Free2Work** (see box, p.17) is also adjusting its company ratings based on how well a company resolves grievances.

These efforts to incorporate reports on workplace issues and rate how well they are being addressed by the relevant company are a positive development. Despite the many challenges in acquiring reliable and comprehensive on-the-ground data, there needs to be some space within rating systems to accommodate reports of serious non-compliance, especially given the skepticism of many labour rights activists about the effectiveness of management systems alone in eliminating persistent violations and addressing systemic labour rights issues.²⁶

5. Are some issues and indicators more important than others?

Should a company be given the same points for publishing a code of conduct as it is for taking steps to ensure that its purchasing practices don't result in excessive overtime? For rating systems with a large number of indicators, there is a danger that companies can gain points on a large number of relatively minor indicators while evading more meaningful actions.

"Some companies game the ratings," said Marcela Manubens of PVH Corp. "For example, they may sign a particular agreement like the Carbon Disclosure Project²⁷ solely to increase their ratings, even if the requirements of the agreement are not very onerous. Some companies aim to grab the low-hanging fruit."²⁸

Weighting the indicators

In order to prevent companies from "gaming the system," most rating initiatives assign varying "weights" to indicators in order to define which issues are most important, and to provide greater rewards for taking steps that the system's designers consider more meaningful. In addition to the differences between systems regarding how they interpret the issues they rate, there is also

significant variation in how they weight them.

When Oxfam Hong Kong produced its first Transparency Report, rating the transparency on labour rights issues of major firms on the Hong Kong stock exchange, it found that very few companies scored any points, which meant there was little to compare between them. For their second Transparency Report, Oxfam Hong Kong re-weighted the criteria, for example giving more points for publishing a code of conduct, in order to allow for more variation between the companies and encourage more companies to participate.²⁹ Allowing some "low hanging fruit" may be necessary to get some companies into the game. If you remove all of the less-onerous indicators, companies may be less likely to engage with the system at all.

The GoodGuide indicators also include such basic steps, but the raters have applied an algorithm that weights indicators based on how other products and companies scored on the same indicator. Thus, if a majority of companies producing a type of product have a public code of conduct, for example, then this indicator is automati-

"Some companies game the ratings."

Marcela Manubens, SVP Global Human Rights & Social Responsibility, PVH Corp.

cally given less weight when calculating overall scores. And if 20 of 30 companies all have a code of conduct, but only 10 of 30 apply it to their full supply chain, then the first indicator would receive a significantly lower weighting than the second in a company's overall score.

Weighting the system's various criteria is also a way of ensuring that important issues don't get lost within a broad social responsibility assessment. This applies especially to how labour issues as a whole are weighted in more complex systems, such as the GoodGuide, that rate companies on a large number of social and environmental factors. For most products, labour issues are embedded within its "social performance" category along with non-labour topics such as consumer satisfaction. Thus, the weighting of labour issues in the GoodGuide methodology is often diluted by other non-labour related indicators that feed into the "social performance" and overall score of a product.

For the GoodGuide's new apparel ratings, however, an additional set of indicators specifically addressing supply chain labour policies and practices has been added to the Social Performance category, significantly increasing the weight given to supply chain

labour issues within the overall Social Performance score.

In the end, weighting is a highly subjective decision largely determined by the priorities and objectives of the rating exercise and the intended audience. Investors may give more weight to standards and issues that are seen as posing serious reputational risk, such as indentured child labour, whereas systems designed to pressure or encourage companies to tackle difficult systemic issues, such as the Let's Clean Up Fashion ratings or Play Fair's Clearing the Hurdles ratings, may give more weight to standards on freedom of association and wages, as well as issues like transparency concerning steps being taken to address those issues. In that sense, comparability on weighting between systems is less important than the question of whether the weighting assigned is appropriate for the objectives and intended audience of the initiative.

Focusing on key issues

Another way to ensure that companies aren't getting too much credit for taking relatively unimportant steps is to eliminate those indicators altogether. The Let's Clean Up Fashion rating system, for example, focuses narrowly on whether companies are address-

ing the issue of a living wage, with some focus on freedom of association as well.³⁰

While this approach has the advantage of focusing companies' attention on strategically important issues that they have, to date, been reluctant to address, it has the disadvantage of discouraging some companies from engaging with the system.

Sam Maher says, however, that companies have been actively reaching out to LBL asking to be included in their rating. "Companies really pay attention to it," she says. "Overall, I've been surprised by the level of attention and engagement from companies." However, she notes, scores for the higher-rated companies have tended to plateau at a certain level, primarily because

"a company needs to actualize their commitments by implementing living wage projects" in order to advance any further.

If one objective of ratings is to take companies outside their comfort zone, LBL's system is clearly meeting that objective.

There is also value in limiting the number of questions to which companies are asked to respond. A 2005 report by Swiss bank Pictet suggests that six years ago companies were already suffering from "questionnaire fatigue" due to the numerous Socially-Responsible Investment (SRI) ratings to which they were being asked to respond, a problem that has likely increased in the intervening years. Pictet suggested that many of the indicators being used by raters were "irrelevant"

Let's Clean Up Fashion reports

The Let's Clean Up Fashion initiative has been developed by the UK organization Labour Behind the Label. The first report was released in 2006 and it has been replicated yearly through 2009. The next report is due in 2011.

The system relies on publicly available data and interviews with company representatives to populate ratings.

The objective of the system is to rate the company commitments to freedom of association and paying workers a living wage.

More information:

www.labourbehindthelabel.org/campaigns/item/828-cleanupfashion

and that more progress could be made by rating just one or two truly meaningful indicators for the particular sector.³¹

That approach, however, might generate some concern amongst companies that have developed wide-ranging CSR programs. “It can be disheartening when a lot of resources are put into a robust program and it’s not recognized,” said Darryl Knudsen, Director of Global Partnerships and Public Policy at Gap Inc. “Systems should be balanced regarding the policies, procedures and programs they include and rate companies on.”³²

Still, when a rating system focuses on a narrow set of issues, positive or negative scores are more clearly linked to specific company policies and practices. A danger for systems with a broader scope is that they tend to boil down a large number of issues into one grade, making it difficult for companies to differentiate between issues or to understand which issues are motivating consumers or investors to act on the rating. Did consumers avoid the product because of its environmental impacts or because the company fired union organizers? What is the appropriate improvement the company should be pursuing to satisfy those consumers?

6. How transparent do ratings systems have to be?

Transparency in rating systems isn’t just about accountability – the public’s right to know how a rating was determined. It is also a tool to inform companies of the steps they need to take to improve their ratings over time.

“To be credible,” notes Geoffrey Geist of Gap Inc., “a system needs to be clear about what behaviours they are trying to incentivize, and about what they’re

measuring and how they are measuring. A good rating system will take into account progress that is being made and applaud those achievements. A good rating system will also highlight the work that remains and give visibility into how to move that work forward.”

Michael Kobori, Vice-President of Supply Chain Social and Environmental Sustainability for

Levi Strauss, agrees. He points to the **Climate Counts** system (see box, below), which rates companies on climate-change issues, as a good example. “The system documents what you do well and poorly and also what you can do to get a better score. We got 1 out of 100 in the first year. This motivated us, and the following year we got 23. And they recognized that Levi’s was doing better. Last year, we got a 46 and are now a leading company. Climate Counts gave us credit for our efforts, which was very encouraging for us.”³³

Most rating systems claim to provide audiences with transparent methodologies. Yet, the levels of transparency vary. Labour advocacy organizations are most likely to implement report-based and relatively small-scale systems targeting a smaller number of companies in a set time-frame. This allows them to present a significant level of detail to their audience regarding their methodology, including information on the indicators they are using, how they are defined, why they were chosen and what data sources are used to populate them.

Climate Counts

Climate Counts is an ongoing online rating of the “climate impact” of some of the world’s largest companies. Their stated goal is to “motivate deeper awareness among consumers — that the issue of climate change demands their attention, and that they have the power to support companies that take climate change seriously and avoid those that don’t.”

The system measures performance across a wide range of sectors (airlines, electronics, apparel, food services, media, etc). It ranks companies on a scale of 1-100 based on whether they have “measured their climate footprint,” “reduced their impact on global warming,” “supported (or suggest intent to block) progressive climate legislation,” and “publicly disclosed their climate actions clearly and comprehensively.” The companies are graded on 22 criteria, with data provided by company responses to questionnaires and publicly available materials.

One interesting innovation is that Climate Counts rates company lobbying for or against environmental legislation (including by business associations to which the company belongs), and uses its ratings to launch public and consumer protests against companies that lobby against pro-environment legislation or make campaign contributions to climate-change denying politicians.

More info: www.climatecounts.org

Wal-Mart's Sustainability Index

The Wal-Mart Sustainability Index (SI) is being developed by Wal-Mart to rate the "sustainability" of the products sold at the company's stores. The SI represents the first time Wal-Mart is including issues related to labour standards compliance within its definition of "sustainability," which has previously been limited to environmental impacts.

New and existing data from Wal-Mart's more than 100,000 suppliers is being utilized to develop the SI. The stated objectives of the SI are: to increase transparency and innovation within the Wal-Mart supply chain; to provide consumers with information regarding the safety, longevity and responsible manufacturing of individual products sold at Wal-Mart stores; and for consumers to utilize product ratings to inform their purchasing decisions.

The primary audiences for SI ratings are consumers that shop at Wal-Mart, and the company itself, which can utilize the SI to better understand its supply-chain dynamics.

At the time of this writing, a date for the formal launch of the SI has not been set, and it is not yet known how SI ratings will be disseminated.

More information:

<http://walmartstores.com/sustainability/9292.aspx>

How much transparency is too much?

As systems become more complex and their scale increases, methodological transparency becomes more difficult. A case in point is the GoodGuide, which utilizes over 1,100 indicators to rate over 75,000 products in three areas: health, environmental impact and social performance. Given this scale, and also the fact that it is a real-time system (i.e. is regularly updated as new data becomes

available), the GoodGuide shifted to using computer algorithms instead of human evaluations to determine ratings. And given the complexity of the methodology, the GoodGuide publicly disseminates limited details regarding its indicators.³⁴

Rhonda Evans notes that dur-

ing user testing, "we found that users felt overwhelmed by too much information on the site." Although it is possible to dig deeper into the indicators used to rate each product, there is currently little information available about how compliance with the indicators is evaluated by the GoodGuide, how the indicators are weighted, or how they factor into the overall product score.³⁵

Similarly, Wal-Mart's Sustainability Index, also aimed at consumers, has not made clear as of yet how transparent it will be concerning its methodology and weightings. While general methodological information is available for this system, details regarding precisely how labour issues will be incorporated and how much weight they will be given are not publicly available. Wal-Mart maintains that results from its Ethical Standards Program, which includes third-party audits of supplier factories across the world for labour standards violations, will be factored into the Sustainability Index and impact overall product ratings.³⁶ But, as of yet, Wal-Mart has not dis-

cussed how much weight these results will have on ratings, nor the weighting that will be given to particular labour issues.

It is understandable that certain aspects of a complex system's methodology may not be possible to share with the general public, for example GoodGuide's algorithm. However, lack of transparency can affect a system's credibility both with its target audience(s) and with the companies being rated. To be credible, rating systems should include, at minimum, a comprehensive list of indicators and definitions and be fully transparent regarding what constitutes a better rating. More detailed information on how scores are assigned should also be made available to interested parties upon request.

Nonetheless, the diversity in terms of indicators, issues, and methodologies even among the small number of systems referenced in this paper is dizzying. Even where systems are fully transparent, the average user will find it difficult to differentiate between systems and choose the

Consumers would no doubt have some reservations about trusting a rating on labour standards compliance from a company with Wal-Mart's labour relations record.

one that best meets their needs. In the not too distant future, a customer going down the aisle at Wal-Mart, may find, by using their smart phone, that a bottle of shampoo is rated differently by the GoodGuide, Free2Work, and Wal-Mart itself. The decision about which system to trust will therefore rest, at least in part, on the credibility of the organization carrying out the ratings.

Even if Wal-Mart's Sustainability Index were built on rock-solid criteria and data, for example, consumers would no doubt have some reservations about trusting a rating on labour standards compliance from a company with Wal-Mart's labour relations record. It could even be argued that less methodologically-sound ratings established by well-known, influential and respected actors could have more impact than methodologically-precise ratings by less established or less-trusted organizations.³⁷ On the other hand, even when the rater is less credible – Wal-Mart as a rater on labour issues, for example – the impact they are able to have by virtue of their massive reach and economic incentives for supplier engagement should not be underestimated.

7. What incentives will motivate positive action?

Ultimately all ratings are intended to provide incentives for companies to improve practices and outcomes. Incentives can be material (better or worse sales, increased or decreased investment, more or less shelf space) or reputational (positive or negative impacts on brand image, public relations or employee satisfaction). They can be relative (influencing a company's market position or reputation in relation to competitors) or absolute (disqualifying a company from investment portfolios on the basis of material risk).

Sales, investment, and brand image

Not all incentives carry equal weight, and the effectiveness of incentives is often very difficult to measure. Any impact of ratings on sales would obviously be a strong incentive for change. However, while changes in sales are clearly easy to measure, a direct link between ratings on labour issues and sales is not. Investment is also easy to measure, and the presence or absence of particular companies from SRI portfolios is often linked to how SRI managers rate companies on a range of CSR issues.

Where things become murkier is on the question of whether and

to what degree a company's brand image is positively or negatively impacted by CSR ratings, and whether that ultimately results in material risk for the company. However, the strong interest expressed by brand-sensitive companies in improving their standing in public CSR ratings would seem to indicate that such ratings are perceived to be a material risk, which ultimately makes public awareness of ratings an incentive in itself.

New incentives

One interesting incentive is the granting of increased shelf-space in retail stores for good CSR performance. For instance, Wal-Mart has suggested that it may use its Sustainability Index as a basis for granting increased shelf-space in its stores to better performers.³⁸ If the company does follow through with this idea, it would provide an innovative and substantial economic incentive for vendors to improve their performance.

Table 1: What incentives can ratings affect?

Target Audience	Incentives
Consumers	Sales Brand image
Investors	Investment Shareholder actions Executive compensation
Civil Society (NGOs, trade unions, etc)	Public campaigns Brand image (can also influence consumers, investors) Pressure for government regulation
Media	Brand image (can also influence consumers, investors)
Retailers	Sales Shelf space
Governments	Regulations Trade barriers
Financing	Trade financing Loans Risk profile

Another possible incentive, which touches on the perceived disconnect between private, voluntary CSR mechanisms and public, governmental regulation, is the use of credible CSR ratings as measures for assistance from governments or multi-lateral institutions – for instance, as indicators that unlock public export development assistance, procurement or trade financing, or as elements in mandatory public CSR reporting. The availability of reliable indicators that are widely accepted and proven in practice through private and/or NGO ratings systems could be used by governments and multi-lateral institutions to translate ratings into material incentives and disincentives.

One example of this approach is currently being explored by Social Accountability International. SAI is in discussions with the International Finance Corporation (IFC) of the World Bank about using the SAI Social Fin-

gerprint® rating system to assess eligibility for apparel suppliers to access trade financing from the IFC. SAI has also conducted a pilot project with an export development agency in which its rating system was used to measure the performance of trade finance recipients. When first applying for financing, a company was given a baseline assessment, and was then required to raise their standing in specific categories in a set time period as a condition of the loan contract.

Another interesting idea is for companies to peg executive compensation to the company's standing in a credible CSR rating system. Some shareholders have already pushed companies to include social and environmental criteria in management performance evaluations and decisions on executive compensation,³⁹ and a credible external rating would provide shareholders with an appropriate measurement of executive performance.

One size does not fit all

There is no magic formula for rating companies on labour standards compliance in their supply chains. Although there have been numerous efforts to design meaningful ratings that assist investors, consumers, media and companies in distinguishing good practice from bad, there is clearly no “one-size-fits-all” approach. In large part this is because the design of a rating system is determined by the objectives of its sponsors, the incentives they are trying to create and the audience they are speaking to. For any ratings on supply chain labour issues to be accurate and effective, system designers need to overcome the multiple challenges pointed to in this section.

In the following section, we examine how ratings are being communicated to reach the right audiences, with the right message, at the right time.

Free2Work:

The Free2work rating system was developed by the Not for Sale Campaign and the International Labor Rights Forum (ILRF).

The system calculates ratings based on labour standards compliance by major brands producing consumer goods in multiple sectors, ranging from laptops to garments. It utilizes publicly available data to develop the ratings, which are disseminated through a website.

The objective of the system is to provide consumers with information regarding company adherence to labour standards, with an emphasis on freedom of association, child labour and forced labour. The primary audience is consumers of brand-name products, as well as the brands themselves. Free2work's ratings are currently updated every 6 months.

More information:
www.free2work.org

B Reaching the **right audience** at the **right time**



Even the best-designed rating system will have little impact if it doesn't reach the intended audience at the right moment – prior to or at the time they are making investment or purchasing decisions. Thankfully, new innovations in technology are allowing users to access ratings and real-time updates whenever they need them, and to tailor the information to their needs. These innovations are also making it possible for rating systems to aggregate information from a number of sources, allowing users to cut through the clutter of multiple rating systems. They are also making it possible to reach a broader range of consumers than ever before.

1. Making ratings more accessible

CSR ratings have typically been distributed either through public reports (such as those issued by NGOs or shareholder advocacy organizations), indexes available for purchase from SRI firms, or published indexes in print or web media. When the target audience is socially-responsible investment managers, other CSR practitioners, companies or media, these distribution channels are usually sufficient. For a more dispersed audience, such as individual consumers, these channels are not sufficiently accessible and therefore do not reach enough people to have a significant impact.

While some consumers may read CSR rating reports, which can impact a company's brand image, the ratings are unlikely to be at the top of a consumer's mind when making in-store purchasing decisions. And, if the

brand name of a product is not immediately associated with the parent company (for example, that Arrow brand shirts are owned by PVH Corp.), a consumer may not make the link between the brand product and the company that was rated. Traditional reporting methods can therefore limit the effectiveness of a rating system that depends on consumers to use their purchasing power to incentivize better corporate behaviour.

There's an app for that

Two systems, GoodGuide and Free2work.org, have dealt with these challenges by creating smart-phone apps that allow consumers to access product ratings while shopping. Climate Counts also provides a smart-phone app for its environmental ratings.

GoodGuide's app allows a user to scan the product's bar code using their cell phone's camera, and call up information on more than 100,000 products

listed with GoodGuide. Although GoodGuide's ratings are listed by product, they link to company-level ratings, so that the consumer looking up information on Arrow Shirts will be given scores based on PVH Corp.'s policies and practice – without the consumer needing to know the name of the owner of the Arrow brand.⁴⁰

Free2work.org's app allows a consumer to call up ratings on specific brand names wherever she or he is, although it does not catalogue products by bar code. Free2work.org's app does include a message function which allows the site's operators to send key messages to consumers regarding new information or updates which might influence their purchases.

Media partnerships

Other systems have entered into partnerships with major media in order to publicize their results to a large and dispersed audience (such as *Corporate Knights* magazine's Canadian corporate responsibility rating,

published in the *Globe and Mail*⁴¹). If one of the target audiences is consumers, the disadvantage of this approach is that the ratings are unavailable at the moment when purchasing decisions are being made.

However, ratings that garner media attention may have a significant impact on the companies being rated, even if they don't necessarily directly impact on consumers' purchasing practices. Several company CSR interviewees told us that seeing their company compared with competitors in major media has the effect of highlighting issues for staff within the company, thereby gaining traction for particular CSR issues with senior management.

"Ratings can be a proxy for success internally," says Darryl Knudsen of Gap Inc. "Good scores increase internal interest, related to keeping ahead of the pack and differentiating ourselves from other companies. Bad scores can lead to more attention being put on particular issues. No one likes an F"

2. Clearer messaging

When complex issues are distilled into a single grade, it is often difficult for the target audience to understand what is actually being measured and/or how the rating was determined. Composite grades that address a large number of related issues can be misinterpreted by users with specific concerns (e.g. consumers or investors concerned about working conditions at the factory level).⁴²

That said, there is clearly an appetite for numeric or alphabetic grades that allow consumers to make clear choices. Trina Tocco, formerly the Deputy Director of the International Labor Rights Forum (ILRF), notes, "All that consumers are going to do is look at the grade rating, A to F. It's hard to figure out how to disseminate the proper message. We want to be more nuanced and discuss implications of the ratings, but without overwhelming consumers."⁴³ The ILRF's Free2Work system has used letter grades, but has also included disclaimers throughout the website indicating limitations of simplified grading.

To address this problem, some initiatives, such as the Transparency Report Cards, have backed up their ratings with lengthy analytical reports

that provide detailed discussion, explanation and methodological information. However, there is still no guarantee that such reports will effectively communicate the meaning of the ratings to the intended audience. For instance, ETAG found that no matter how much effort it made to clarify that the numerical ratings it assigned to companies were based solely on their level of transparency, consumers and even members of its own constituency interpreted them as ratings of company practice at the factory level.⁴⁴

Also, while the ETAG system was calibrated so that no company achieved particularly high scores, media tended to report the relative rankings (e.g. Levi's vs Gap vs. Nike) and not absolute scores when interpreting the results – subtly altering ETAG's message from "none of the companies surveyed is currently providing sufficient, credible and verifiable information to consumers or shareholders to allow informed ethical choices"⁴⁵ to "thanks to these efforts at openness and adherence to labour standards, Gap now stands No. 3 on the Canadian report card, after Nike at No. 2 and Levi Strauss in first place."⁴⁶

The challenge for rating systems is not how to increase the average consumer's attention span but rather how to design the indicators and weightings so that a single grade accurately reflects company performance and drives improvements in the areas that are of most concern to the system's designers.

System designers can now take advantage of web and smart-phone technologies to lead users to additional information about the ratings, methodology and data used, encouraging users to learn more about what's being rated and why.

One way of doing so, originally explored by AccountAbility in its web-based **Gradient Index** transparency rating system (which was later adapted for use by ETAG and Oxfam Hong Kong for their Transparency Report Cards), is to allow the user to re-weight the system's indicators to arrive at a rating that more closely reflects their own priorities. For example, a visitor to the (now defunct) Gradient prototype website could increase the importance of indicators related to supply chain auditing and decrease the weight of indicators relating to board governance, or vice versa. The system would automatically re-calculate the overall rating and arrive at a

new grade for the company.

A rating system could use a web or smart-phone application to allow users to re-weight ratings to highlight their personal priorities, like climate change, labour rights, diversity, or philanthropic activity. While this approach cedes some control over the rating to the user, the upside for rating designers is that by asking users to engage in the rating process, it also invites users to pay closer attention to what's behind the overall score.

3. Real-time systems

New technologies have also allowed rating designers to overcome many of the limitations of report-based CSR rating systems, which provided time-dated information and were disseminated primarily through relatively detailed reports.⁴⁷

"Real-time" CSR rating systems are a more recent innovation. Real-time ratings are available to the public through frequently updated websites, smart-phone "apps," or other similar means.⁴⁸ These systems try to incorporate company/product advances or setbacks as new data becomes available. The GoodGuide and Free2Work systems are, and Wal-Mart's Sus-

tainability Index will likely be, real-time systems.

A real-time system that is regularly updated with the latest available information has obvious advantages over a report-based system that releases its ratings on an annual basis, particularly for consumers. However, it's important to remember that rating systems often have different objectives and target audiences. Real-time systems are usually designed to process new information and develop new sources of information over time in order to offer consumers and investors consistent but evolving tools to make it easier for them to make ethical purchasing or investment decisions on a regular basis. If the rating system is intended to achieve shorter-term objectives, however, (such as generating media attention or encouraging companies to be more transparent) an annual report may be more than sufficient.

It is also worth noting that most of the companies assessed by real-time rating systems tend to release their CSR reports on an annual or bi-annual basis, as do many CSR and SRI organizations whose reports serve as raw material for both report-based and real-time systems. Few companies announce policy changes between annual or bi-annual

Real-time vs Report-based systems

- Report-based systems have a shorter shelf life than real-time systems. These systems release reports at most once per year. Changes between reports cannot be captured by these systems. Real-time systems, on the other hand, can be updated frequently to reflect changes in company policy, practice or outcomes.
- Report-based systems may require fewer resources than a frequently updated real-time system. Developing and publishing periodic ratings is resource-intensive over a limited period of time, while a frequently updated real-time system requires ongoing significant resource investment, depending on how data is gathered and analyzed.
- Real-time systems require consistent and comparable indicators and weighting of indicators, while report-based systems may make changes in indicators and weighting from year to year in order to address priority issues, or may be phased out altogether once objectives are met or new priorities established.

reports unless in response to a media or third-party report that could do damage to their brand.

For a real-time rating to be truly timely, data would therefore need to be gathered from additional sources beyond the annual or bi-annual reports of companies and CSR and SRI organizations, and such data would have to be subject to change over a shorter time frame.

The GoodGuide, for example, uses over a thousand sources for data, including “scientific institutions and governmental agencies, commercial providers such as socially responsible investment rating agencies, non-governmental organizations, media, as well as the companies that manufacture the products [they] rate.” While this expansive data set should allow for regular updates of company and/or product ratings, it should be noted that only some of these sources are likely to provide information on supply chain labour practices. For some indicators, particularly those for which on-the-ground information is difficult to obtain, the data sources may turn out to be the same annual or bi-annual CSR reports of companies and other institutions that are being used by report-based systems.

For example, when GoodGuide rates Mattel’s Surf’s

Up Beach Barbie on “Sustainability Reporting” (“how transparent the company is on environmental and social issues”), its source is KLD Research & Analytics, a private-sector SRI firm. KLD, in turn, gets its data for this indicator by analyzing annual reports and company websites, which is no more “real-time” than the ratings of any report-based system.⁴⁹ When GoodGuide rates the same toy on “Supplier labor controversy” (for which Barbie received 0 out of 10), it again looks to KLD.⁵⁰ In this instance, however, KLD also provides regular updates based on NGO reports, and media scans, which does allow for more real-time updates.

The advantage of real-time rating systems therefore depends to a large extent on what is being rated and the source(s) of the



GoodGuide gives Barbie 0 out of 10 points on ‘Supplier labor controversy’.

data. Real-time systems have the potential to provide powerful tools to tens of thousands, if not hundreds of thousands, of consumers to make ethical choices at the moment of purchase, however that potential will not be fully realized until the challenge of obtaining accurate and timely information is overcome.

4. Ratings aggregators

In its “Rating the Raters” survey, SustainAbility notes the promising development of ratings aggregators.⁵¹ These systems, made possible by new technology, can gather results from other rating systems and produce a combined result that, hopefully, represents the collected wisdom of a large number of systems. GoodGuide is an example of such a system, using a large number of data sources (including other ratings) and compiling their results using their own algorithms.

The benefits to aggregation are clear – for users who are overwhelmed by competing ratings from multiple systems, each with their own variation on the theme, aggregated ratings should provide a relatively reliable overall result on CSR measures.

The downside of aggregated ratings, as explored earlier, is that as more elements are combined in a single rating, the meaning or interpretation of the rating becomes less specific.⁵² Also, the specific experiences of workers that may have been the source of positive or negative ratings in one system can be lost once that rating is combined with ten or a hundred others. Lastly, depending on the algorithms used, and the weight given to various sources and indicators, the results of “secondary” ratings, which aggregate scores from a variety of systems, may in fact be less accurate than those of the best of the systems it relies on.



C Conclusion

The proliferation of rating systems demonstrates that there is a strong demand from consumers and investors for more information on the social and environmental impacts of the products they purchase or the companies in which they invest. It also suggests that many organizations have concluded that there are varying degrees of social compliance and that there is some value in differentiating the leaders from the laggards.

The harshest criticism of rating systems that try to address supply-chain labour issues is that they have the potential to create a “moral hazard” by publicly rewarding companies for making marginal changes while leaving the fundamental problems unresolved. Some argue that rating systems that give companies credit for taking minimal steps to address labour issues that are endemic to a particular industry are implicitly helping those companies “bluewash”⁵³ their image.

Unfortunately, some “bluewashing” may be inevitable unless and until comprehensive “on-the-ground” realities are systematically incorporated into rating systems. At present none of the CSR rating systems that include supply-chain labour issues claims to base their ratings on actual company practices throughout the supply chain, especially at the factory level.

While a few systems have attempted to incorporate informa-

tion about on-the-ground labour practices through proxy indicators, such as media or NGO reports, these provide a limited and not always accurate picture of supply chain and workplace realities. Unless and until this becomes feasible, system developers need to think creatively about how to structure ratings in a way that prioritizes key systemic issues in the industries surveyed, identifies the specific steps companies should be taking to tackle those issues, and recognizes the progress they are making in doing so.

Rating systems should also be designed to encourage companies to provide more transparent reports to stakeholders and the public on their efforts to achieve labour standards compliance at the factory level. Such reports could include public disclosure of audit findings, identities of the auditing organizations and of the facilities being audited, recommended corrective action and

progress toward remediation on a factory-by-factory basis.⁵³ Such reports could also include updates on actions the company is taking to address their own practices that encourage labour standards violations, such as their purchasing practices and the degree to which compliance with labour standards is a factor in sourcing decisions.

Of course, this level of reporting would not be of interest to most consumers or investors, but it could be used as data by credible CSR rating organizations, allowing them to synthesize the information and make it accessible to companies, investors, consumers, workers and other stakeholders. As more comprehensive and detailed data becomes available, the credibility and utility of ratings will increase.

Those designing and promoting rating systems need to acknowledge that not everything is easily measurable and some problems defy easy technical solutions. While CSR ratings can be

a powerful tool to motivate companies to improve their labour policies and practices, they are only one tool in the toolbox.

Due to the diversity of objectives, issues, indicators and methodologies adopted by the various rating systems, it is difficult, if not impossible, to compare systems side-by-side – to “rate the ratings” – and declare a winner. It is possible, however, for labour rights advocates and experts to assess the strengths and weaknesses of individual rating systems in meeting the needs of particular users. Such assessments could be carried out based on the design of the system, sources of data, indicators measured, weightings assigned to particular issues, messaging and outreach, and effectiveness of incentives used to promote improvements in supply-chain labour standards.

To be an effective tool to motivate companies to improve supply-chain labour standards and practices, a rating system needs to:

- Develop indicators that measure substantial and effective efforts to improve wages and working conditions, rather than assuming that a company’s adoption of the standard suite of CSR management systems is sufficient evidence of progress;
- Find ways to incorporate and reflect workplace level data in order to be confident that the company’s policies and systems are having the intended impacts throughout the supply chain;
- Assign greater weight to the issues, commitments and practices that have the most substantial impacts on the ground;
- Be sufficiently transparent that both the users and the companies being rated know what’s being measured, what steps would need to be taken to move up the rating ladder and what a number or letter grade really says about the company’s policies or practices; and
- Focus on strengthening incentives that motivate companies to make significant improvements in their CSR policies and practices.

We believe that CSR rating systems can help to promote an agenda for change by highlighting the most significant issues that need to be addressed to achieve that agenda. As noted above, we recommend that CSR rating systems prioritize systemic issues that are blocking progress toward sustainable compliance in the industries rated. They should also endeavour to ensure that, in the midst of all the charts and spreadsheets, the experiences and voices of the workers whose lives and work experiences are the subject of these systems are not lost. It’s our hope that in this manner, CSR ratings can create powerful moral and material incentives to motivate real improvements in workers’ lives.

Questions

To make the most of rating systems, designers, consumers, labour rights advocates and investors should be asking some hard questions. Rather than trying to propose the “correct” design for rating systems addressing supply chain labour issues, we offer below a set of questions that designers, investors, labour rights advocates and consumers can ask themselves about the various rating systems on offer – and those that are still to come.

Questions for rating designers:

1. Are you clear on the objectives and audience(s) for your rating system?
2. Are rating indicators based on relevant international labour standards and, if so, how do you assess whether and to what degree company policies and benchmarks are consistent with those standards?
3. What efforts, if any, are you making to ensure that on-the-ground realities for workers in the company’s facilities and/or supply chain are reflected in the ratings?
4. Do you provide your audience with sufficient information to fully understand what’s being rated – and what is not?
5. Are you transparent about your rating methodology, including labour rights indicators, weightings and sources of data?
6. Does your rating system offer clear incentives for companies to participate and improve their standing, while discouraging companies from “gaming” the system?
7. Are your ratings readily accessible to your target audience when they are making key decisions?
8. Are you rewarding the right things – are the policies, practices and systems being rated the ones most likely to help improve working conditions at the factory level?
9. Have you consulted with trade unions, labour rights NGOs and other experts to determine which policies, practices and issues they see as critical?
10. What process do you have in place to allow for interested third parties to challenge ratings or provide input?
11. How do you balance your rating system to ensure that progress in one CSR area (e.g. environmental performance) does not obscure lack of progress in another area (e.g. labour conditions)?
12. How often are ratings updated? Is your timeline appropriate to the matters being rated and the availability of new data?

Questions for investors and consumers:

1. Do you know what the rating system is measuring? Is it measuring whether the company has management systems in place to identify and correct labour rights violations? Is it rating whether the company has made formal commitments to respect labour rights and/or address specific issues? Are serious efforts being made to incorporate data on actual working conditions in the ratings?
2. Does the rating system give more weight to the most important issues? Are the indicators weighted to give more points for more substantial commitments on critical issues? Are issues of most concern to you given sufficient weighting? Are some key issues lost in ratings that consolidate a number of related issues?
3. Do you know where the rating system gets its data? Does the rating system depend solely on what is reported by the company? If so, is that information publicly available or is it provided on a confidential basis? Does the rating system also use other more independent sources of data and, if so, how reliable and credible are those sources? Is the data used relevant and sufficient for the indicator being measured? Are the sources reliable and credible?
4. Is the rating agency credible? Do you trust the organization(s) or individuals doing the rating? Who funds them? Are they truly independent from the companies being rated or are there potential conflicts of interest? Do they have expertise and experience on the issues being rated? Is there any mechanism for oversight by labour rights experts, or an opportunity for interested parties to challenge the ratings?
5. Is the rating up-to-date? How old is the data being used for the ratings? How often is it updated?

Questions for labour rights advocates:

1. Does the rating system offer effective incentives? Does the rating system trigger concrete incentives to motivate companies to improve their labour policies and practices?
2. Does the rating system provide opportunities to promote change? Does the rating system provide you, your organization and members of your constituency with useful information or tools to push companies to improve supply chain policies and practices, such as improving transparency, committing to tackling systemic problems in their supply chains and in their own sourcing and purchasing practices and/or constructively engaging with international and local trade union and labour rights organizations?

Appendix

This appendix includes summaries of the rating systems most-often mentioned in this publication. The summaries are based on publicly available information and interviews with the developers/implementers of each system. The intent of the summaries is to outline the basic design of each system, and not to analyze or evaluate the relative merits of these particular systems.

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- 2. ETI Management Benchmarks30
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1. Wal-Mart Sustainability Index

Overview

In July 2009, Wal-Mart announced plans to develop a Sustainability Index (SI) to calculate and disseminate “sustainability” ratings for products sold at Wal-Mart stores.⁵⁵ The SI represents the first time Wal-Mart is including issues related to labour standards compliance within its definition of “sustainability,” which has previously been limited to environmental impact.⁵⁶ At the time of this writing, Wal-Mart is still in the process of developing a methodology to calculate SI ratings. It is as yet unclear how SI ratings will be disseminated, though Wal-Mart will begin by testing approaches for presenting ratings to consumers. A date for the full launch of the SI has not been set.

● Rating System Objectives

The stated objectives of the SI are: to increase transparency and innovation within the Wal-Mart supply chain; to provide consumers information regarding the safety, longevity and responsible manufacturing of individual products sold at Wal-Mart stores; and for consumers to utilize product ratings to inform their purchasing decisions.⁵⁷

● Primary Audience(s)

The primary audiences for the ratings are consumers that shop at Wal-Mart; and the company itself, which can utilize the SI to better understand its suppliers and supply-chain dynamics.

● Manufacturing Sector(s)

The Index will rate consumer products sold at Wal-Mart stores, including groceries, apparel, electronics and other items.

What Does the System Measure?

The SI, under the banner of “sustainability,” divides corporate social responsibility into four categories: Energy and Climate; Natural Resources; Material Efficiency; and People and Community.⁵⁸

● Unit of Analysis

The intent of the SI is to provide product level ratings.

● Report-Based or Real-Time

The SI will use a real-time methodology to update data regarding ratings. It is unclear how often data will be refreshed and disseminated.

● System Framework and Methodology

Wal-Mart is utilizing a combination of new and existing data, both self-reported (by suppliers) and based on factory audits from its over 100,000 supplier facilities to construct the Sustainability Index. New data is being collected through a “supplier assessment” made up of 15 questions divided into the four “sustainability” categories. Suppliers are asked to include information for direct and sub-contracted factories.⁵⁹ The questions request information from suppliers ranging from their total greenhouse emissions to whether they can identify the location of 100% of their production facilities. Suppliers will be given a rating of “Above Target,” “On Target,” or “Below Target” for each “sustainability” category. The scores within each category will be combined to produce an overall rating. The overall score will be broken down as follows: People and Community and Nature and Resources category scores will each comprise 20%, and the Energy and Climate and Material Efficiency category scores will each comprise 30%.⁶⁰

In addition to the scores based on the data collected through the “supplier assessment,” final SI product ratings will incorporate data from existing Wal-Mart rating systems.⁶¹ For example, 60% of the Material Efficiency category will be based on completion of the existing supplier Packaging Scorecard.

Notably, results from Wal-Mart’s Ethical Standards Program (ESP), which includes audits of supplier factories around the world for compliance with the Wal-Mart code of conduct, will not be included as a variable in the People and Community category. However, Wal-Mart maintains that ESP results will be factored into the SI and impact product ratings, and that it is in the process of determining how to do so.⁶²

Supporting the work to develop the final SI ratings methodology is a group of external consultants, including the Sustainability Consortium, a recently founded organization, supported with Wal-Mart funding, that develops CSR data systemization tools and methodologies.⁶³

● Public vs. Private Data

The “supplier assessment” requires suppliers to provide Wal-Mart with data not publicly available. ESP results are publicly available in the aggregate, but not at a company/ product level. It is unclear how much detail underlying SI ratings will be made public.

● Data Verification

With regard to the “supplier assessment,” suppliers are responsible for self-reporting answers and may change them at any time.⁶⁴ Wal-Mart will not verify the accuracy of answers unless it perceives inaccuracies.⁶⁵ Data from existing Wal-Mart programs,

such as the ESP, which presumably will be incorporated into SI ratings, is collected by third-party social auditing organizations contracted by Wal-Mart, and in some cases verified by Wal-Mart compliance staff.

● Focus on Labour Issues

The People and Community “sustainability” category in the SI “supplier assessment” incorporates topics related to labour standards. Of the five questions included in this category, two ask specifically about “social compliance” at the factory level. The term “social compliance” is defined as “meeting or exceeding the requirements of local laws,” and of Wal-Mart’s code of conduct regarding voluntary work, child labour, non-discriminatory hiring and employment practices, freedom of association, adequate compensation, and health and safety standards.⁶⁶ The two questions are:

1. “Do you have a process for managing social compliance at the manufacturing level?” and
2. “Do you work with your supply base to resolve issues found during social compliance evaluations and also document specific corrections and improvements?”

As with the other three questions in this category, both are “yes/no.” Unlike most of the other “supplier assessment” questions, suppliers cannot qualify their answers.

To receive a rating of “On Target” in the People and Community category, a supplier needs to achieve a combined score of at least a 65%. These two questions comprise 40% (25% and 15%, respectively) of the total category score. Ostensibly, a supplier should not be able to answer “yes” to the second question if they do not answer “yes” to the first. Thus, if they do not answer “yes” to the first question, they will automatically be “Below Target” in this category.

These two questions account for 8% of the overall “supplier assessment” score. Wal-Mart has

not released, or made plans to release, a rubric reflecting the percentage needed to achieve an “Above Target,” “On Target,” or “Below Target” overall score on the “supplier assessment.” As such, it is not possible to estimate whether a supplier could avoid a “Below Target” overall score if they answered “no” to the questions focuses on “social compliance.”

Lastly, Wal-Mart has noted that it intends to include in the SI ratings existing data on labour issues, for example results from the ESP. This data is not reflected in the “supplier assessment” and it is unclear how they will incorporate these results into a supplier’s final SI score.

● System Results Dissemination

Wal-Mart plans to pilot approaches to disseminate SI results. It is unknown whether product scores disaggregated by the four “supplier assessment” categories will be available to the public, and/or if Wal-Mart will release one overall SI score per product. Also unknown is whether SI ratings will be available to the public through a website, labels at stores, and/or other means. The level of transparency regarding the SI methodology and the ability for the public to look closer at product ratings related to specific issues (e.g. labour rights violations) is yet to be determined.

● Follow-up/Feedback Processes

In the lead-up to the “supplier assessment,” Wal-Mart provided a resource manual to its suppliers with information regarding best practices that can help increase their scores.⁶⁷ While Wal-Mart stipulates that it aims to help its suppliers achieve increasingly better SI scores, a formal follow-up engagement process has not been publicly released. Additionally, there has been no formal announcement regarding if/how feedback or information from third-party sources affecting SI ratings would be incorporated into the system on an ongoing basis.

● Incentives for Companies to Participate

Wal-Mart representatives confirm that products that respond in full to the “supplier assessment,” and possibly those with higher SI ratings, will receive preferential treatment, such as premium shelf-space.⁶⁸ Other incentives for suppliers to participate could include demonstrating to consumers a commitment to sustainability, as well as differentiating themselves from competing products.

2. ETI Management Benchmarks

Overview:

The Ethical Trading Initiative (ETI) is a membership-based multi-stakeholder initiative whose membership includes 70 corporations, three international trade union bodies, and 15 non-governmental organizations. The goal of the ETI is to support corporate members in actualizing and evolving their commitment to ethical trade, which includes adherence to labour standards. In late 2009, ETI launched the Management Benchmarks to systematize its expectations and evaluation of member corporations' "continuous improvement" related to incorporating ethical trade principles into their supply chains. Corporations are evaluated based on self-reported non-public data, which is reviewed and, in some cases, verified by ETI. Aggregated Management Benchmark results will be released publicly by ETI on a yearly basis; member corporations can choose to release their individual rating.

● Rating System Objectives

The primary objective of the Management Benchmarks is to set a standard for and measure member corporations in relation to ethical trading principles. A second objective is to publicly communicate, on an annual basis, advances made by member corporations.

● Primary Audience(s)

The primary audiences for the Management Benchmarks are: ETI members, including trade union and non-governmental organizations, which will utilize results to assess and support the "continuous improvement" of member corporations' adherence to the ETI's ethical trading principles; and member companies themselves, which can use the ratings as a means to compare their progress to that of other corporate members.

● Manufacturing Sector(s)

ETI member corporations produce and/or market goods in diverse sectors, "from tea to T-shirts, from flowers to footballs."⁶⁹

● What Does the System Measure?

The Management Benchmarks measure ETI member corporations' "continuous improvement" related to ethical trade. ETI defines ethical trade in two principal documents: its Base Code of Labour Practice (Base Code)⁷⁰ and Principles of Implementation. The Base Code is consistent with ILO Conventions⁷¹ and includes a Living Wage provision.

● Unit of Analysis

The Management Benchmarks will produce company-level ratings.

● Report-Based or Real-Time

The Management Benchmarks are a report-based system that disseminates annual ethical trading reports completed by its corporate members and verified by ETI.

● System Framework and Methodology

ETI's six main Principles of Implementation for ethical trading serve as the framework for the Management Benchmarks.⁷² These principles are: Commitment to Ethical Trading; Integrating Ethics into Core Business Practices; Capacity Building; Identifying Problems in the Supply Chain; Improvement Actions; and Transparency. Each principle has three to seven sub-indicators, for a total of 29. The system establishes four benchmark levels of corporate achievement for each sub-indicator: Foundation Stage, Improver, Achiever, and Leader.⁷³

For example, under the principle of Improve-

ment Actions, sub-indicator one is operationalized in the following manner:

5.1: Enabling remediation: the company works with its suppliers to rectify any problems identified and implement improvements that are consistent with the provisions of the Base Code.

Foundation Stage: Company consults ETI and its members on best practice approaches to achieve effective remediation.

Improver: Company develops policies/approaches toward preventing and rectifying problems.

Achiever: Company works collaboratively with stakeholders and ETI on initiatives promoting responsible ways to prevent and rectify problems.

Leader: Company works with suppliers, competitors and local actors to tackle industry-wide shortfalls in the application of the Base Code/local laws.

ETI developed the four benchmark levels to reflect best practices it has identified during its first decade of operation. Specifically, according to ETI, they reflect corporate institutionalization of evidence-based efforts that lead to labour standards compliance throughout their supply chain as well as that which can influence corporations in the same industries to ratchet up compliance.⁷⁴ The achievement levels were developed with input from ETI members, including corporations, NGOs, and Trade Unions.⁷⁵ ETI corporate members may develop unique approaches to meet the benchmark levels.

Corporate members are required to submit annual reports to ETI. Starting in 2010, member corporations were required to structure their annual reports to align with the Management Benchmarks. As such, member corporations will self-report ac-

tivities under each sub-indicator and rate their achievements based on the four benchmark levels. ETI reviews member corporations' annual reports and decides whether their self-ratings are accurate (see data verification section below). Foundation Stage members have a maximum of 25 months to meet the Management Benchmarks Foundation Stage levels on all of the 29 Management Benchmarks, before they are considered full ETI members. If they do not meet this requirement, their ETI membership is revoked.

Following full-member status, ETI and member corporations agree on a timeframe for the corporation to achieve the Improver benchmark level.⁷⁶ The timeframe will be unique for each member corporation. At this time, there are no time limits to how long a member company can remain at the Improver benchmark level.⁷⁷ Additionally, it is unclear what percentage of sub-indicator benchmark levels must reach Improver status before the member corporation is considered to be in the Improver category. Similarly, there is no minimum percentage of achievement within the sub-indicators that determines when a member corporation makes it to the next overall benchmark level.

● **Public vs. Private Data**

Corporations' annual reports to ETI include a combination of public and non-public information. The reports are only available to ETI members, thus it is not possible to determine the amount of each type of data that it utilized to determine ratings.

● **Data Verification**

The content of member corporate annual reports which include self-reported data are analyzed and reviewed by the ETI Board, independent consultants, and the Trade Union and NGO caucus groups. Additionally, ETI's Secretariat, in coordination with NGO and Trade Union members, conduct an audit of at least 15% of the annual reports.⁷⁸ The audits can include site visits to corporation headquarters,

as well as specific supplier factories. The trade union caucus group is heavily engaged in this aspect of ETI's work.⁷⁹

Corporate annual reports, their review proceedings, and ETI audits are all confidential and only available to ETI members. In other words, ETI does not provide detailed yearly information regarding the activities of its corporate members individually. ETI only provides aggregate trends and data highlighting annual changes. For example, ETI notes that in 2009 member corporations conducted 13,556 inspections of supplier sites compared to 11,469 in 2007.⁸⁰

● **Focus on Labour Issues**

The Management Benchmarks are based on ETI's Base Code and Principles of Implementation. As reflected in its Base Code, ETI's central concern is improving working conditions and corporate labour practices around the world. Its Principles of Implementation provides guidance on how Base Code principles can be incorporated into corporate supply chains and management structure. The Management Benchmarks framework takes this a step further by establishing a means by which corporate members incorporate these principles into their supply chain and management structures. As noted above, the Base Code is consistent with the four fundamental labour standards established by the International Labour Organization (ILO), as well as other ILO Conventions on working hours, health and safety, and security of employment. It also includes a living wage provision.

● **System Results Dissemination**

Internally, all ETI members are able to review their own and each other's annual reports, ETI's review, and benchmark level for each sub-indicator. ETI will release aggregate information to the public regarding the benchmark levels achieved by member corporations. It will not release a specific corporation's benchmark level or movement toward the

next benchmark level on each of the 29 sub-indicators or its overall benchmark level. ETI does list by name the corporations in the Foundation Stage provisional membership. Member corporations have the option to report their overall benchmark level publicly. For example, a corporation may disseminate publicly that in a given year it moved from Improver to Achiever.

● **Follow-up/Feedback Processes**

ETI provides individualized feedback to each member corporation regarding information included in their annual report and subsequent review. This feedback is meant to serve a foundation for member corporations' continuous improvement over the following year.

Because ETI's ratings are not made public, there is no method for third-parties, other than trade union and NGO members of ETI, to challenge the ratings. However ETI does have an internal disciplinary procedure to ensure that members are accountable for taking steps to implement the ETI's Base Code in their supply chains.

● **Incentives for Companies to Participate**

Participation in the system is obligatory for all ETI corporate members. Thus, the incentives for corporations to join ETI and participate in the Management Benchmarks system are the same. According to the ETI, the incentive for companies to become members is to have access to other companies' annual reports, as well as best practices case studies which ETI produces. ETI also notes that participation allows companies to view their year on year progress, ultimately helping them improve their supply chains within an ethical trading framework.⁸¹ A second incentive is that companies can advertise their commitment to labour issues by highlighting their membership in this multi-stakeholder initiative.

3. The GoodGuide

Overview

The GoodGuide (the Guide) is a consumer products rating system, managed by a commercial venture of the same name. The Guide publishes rating results on a website and also has a smart-phone application which allows the public to access the ratings by scanning the barcodes of products. To date, the Guide has rated over 100,000 products produced by or for over 1,500 companies.⁸² Data for the Guide's ratings are collected and analyzed based on self-reported public company data, as well as third-party actors such as socially-responsible investment (SRI) analysts and media outlets. The Guide rates products in three areas: health, environment, and social performance. Ratings in each of the areas may be at the company and product levels. A product's rating in each category and overall is determined also in comparison to other products in the same category.

● Rating System Objectives

The objectives of the Guide are to: provide easy-to-process "authoritative information about the health, environmental and social performance of products and companies;" to disseminate this information to consumers with the aim of informing their purchasing decisions; and to increase corporate reporting transparency.

● Primary Audience(s)

The primary audience is consumers.

● Manufacturing Sector(s)

The Guide rates consumer products in diverse sectors, from toys to personal care. New sectors will be added over time to the Guide. A new apparel rating was introduced in February 2011, starting

with 118 brands. Ratings for cell phones, appliances and lighting were added at the same time.

● What Does the System Measure?

The Guide rates products in three areas: health, environment, and social performance.⁸³ Ratings from each area are compiled to provide an overall score. The scores are calculated based on level of adherence to Guide indicators within each category as well as how they match up to other products in the same sector/category. Each of the areas follows a stakeholder approach. In other words, the indicators reflect a company's performance related to actors that are affected by its operation (i.e. workers, communities, etc.).

● Unit of Analysis

The Guide aggregates ratings at the product level. However, in most cases social and environmental impact data is evaluated at the company level, except where individual product-level data is available. For example, two products produced by or for the same company could receive different health performance ratings, but would likely have the same environmental and social performance ratings. It recently launched environment ratings specific to certain categories of products such as diapers. Where social or environmental impact data is available for individual products like coffee or tea, it is incorporated into the rating.⁸⁴ For apparel, special indicators for supply chain labour performance were developed, but these are rated at the company level rather than the product level.⁸⁵

● Report-Based or Real-Time

The Guide is a real-time rating system. Ratings are regularly updated to incorporate new information from a variety of sources.

● System Framework and Methodology

Under each of the three assessment areas, health, environment and social, the Guide has a set of indicators which it utilizes to determine a product's area-specific and overall rating (on a 0-10 scale). Thus, each product has four ratings (one for each area and an overall one). Over 1,100 indicators are used to develop the ratings, but not every product is rated on every indicator.⁸⁶ The Guide does not have a publicly available document which lists every indicator it utilizes and the data sources that are used to populate them. In many cases, indicators are populated by "external data." Moreover, there is more information publicly available related to the health area.⁸⁷ The Guide does not provide information for any of the three areas regarding what weight is given to each indicator.

Ratings regarding environment and social performance are calculated at a company level, while health ratings are product specific.⁸⁸ It is possible to do so for the latter since each product has an ingredients list which can be analyzed for hazardous or controversial ingredients. It is more difficult to break out specific environment and social indicators because the type of detailed information that would be needed either does not exist or is not released by companies.⁸⁹ There are reportedly efforts underway to develop means to rate social performance at the product level.⁹⁰

The Guide consolidates data from over 1,000 sources, which it considers "authoritative."⁹¹ Only some of these relate to supply chain labour prac-

tices. The Guide utilizes two forms of data collection: automated and manual. Whenever possible, the Guide seeks to incorporate automated data into its indicators. Data collected in an automated manner comes from sources such as SRI agencies, whereas that collected manually is culled from privately held companies and require the Guide to conduct its own research.⁹²

The Guide analyzes products from publicly traded and private companies. The former have more reporting requirements, for example, to regulatory bodies. As such, there is more public information available. The Guide utilizes statistical methods to align different levels of information available from companies. For example, the rating for “Head and Shoulders” shampoo is based on 199 data points. Meanwhile, the rating for “Nurture My Body” Shampoo, made by a privately held company, includes 69 data points. The Guide ratings incorporate comparisons among similar products to create a “grading curve.” In other words, if 90 percent of shampoos rated have a high rating on a particular indicator, meeting that indicator weighs less on a product’s rating, and vice versa.⁹³

● **Public vs. Private Data**

The Guide ratings are based on publicly available data regarding products and companies.

● **Data Verification**

The Guide utilizes data reported publicly by companies and also third-party data (for example media stories) to populate its ratings. The Guide does not directly verify self-reported, publicly available company information or information provided by commercial data sources.

● **Focus on Labour Issues**

Labour issues are included in the Guide’s social performance area. This area is broken up into four main categories: Corporate Governance; Con-

sumers; Society; and Workers. Under Workers, sub-categories include: Workplace Diversity; Working Conditions and Benefits; and Labour and Human Rights. Most of these apply only to workers directly employed by the company.

For some products, the Guide further breaks down the Labour and Human Rights category to include two categories that address labour rights in the supply chain: “Supplier Labor Controversy” (whether there are negative media stories about the treatment of workers in the company’s supply chain) and “Supply Chain Policy” (whether the company has a code of conduct or management systems in place to deal with labour issues in the supply chain). In other cases, the Guide only provides a single “General Labor and Human Rights” score which encompasses both direct employee relations and supply chain issues. Not all products are rated on every indicator.

It is unclear what labour standards and/or management systems are addressed in sub-categories. For example, the Supply Chain Policy indicator does not discuss which rights companies commit to (e.g. living wage, freedom of association, etc.).

Lastly, as only two of over 40 indicators are used to develop the “Social Performance” score, it is unclear how supply chain labour indicator scores factor into the final rating for social performance.

For apparel companies, however, the Guide has developed a set of indicators directly related to labour practices in supply chains, which address such issues as living wage, factory disclosure, purchasing practices, responsiveness to complaints of labour rights violations, and other matters.

● **System Results Dissemination**

The Guide disseminates its ratings through its website. It includes four ratings for each product reviewed, one for each area and an overall rating. Visitors to the website can take a closer look at the rating within each area and review the indicators

utilized to produce the rating. Visitors may also view how a product compares to other similar products that have been rated. Lastly, the public may use the Guide’s smart-phone application to scan product bar codes at stores and view its rating.

● **Follow-up/Feedback Processes**

If requested by companies, the Guide will provide an explanation as to how it arrived at a certain rating, and what efforts the companies can undertake to improve their rating. There is also a feedback process through which anyone, including companies, can discuss a rating, provide the Guide with more information or highlight violations that might affect a company’s standing. .

● **Incentives for Companies to Participate**

GoodGuide is used directly by consumers to inform purchasing decisions, giving companies a powerful incentive to have their products rated by the Guide and achieve good ratings. Also, the Guide has direct links to online retailers such as Amazon.com, allowing customers to immediately actualize purchasing decisions. Thus, the second incentive is also critical: that they have good ratings which will lead customers to choose their product.

4. Free2Work

Overview

The Free2work rating system was developed by the Not for Sale Campaign and the International Labor Rights Forum (ILRF). The system calculates ratings based on labour standards adherence by large brands producing consumer goods within multiple sectors, ranging from laptops to garments. The system utilizes publicly available data to develop the ratings, which are disseminated through a website. We reviewed the initial version of the Free2work system; it is currently undergoing an evaluation and an updated version of the system is due to be released later this year.

● Rating System Objectives

The primary objective of the system is to provide consumers with information regarding self-reported company adherence to labour standards and transparency of their supply chain.

● Primary Audience(s)

The target audience is consumers of brand-name products, as well as the companies that produce them.

● Manufacturing Sector(s)

Product types from multiple sectors are covered by the system, including apparel, electronics, food products and tires.

● What Does the System Measure?

The system measures companies (by product type) on self-reported, public information on labour policies and practices, with a particular emphasis on forced and child labour, as well as freedom of association. It also measures the transparency of supply chains.

● Unit of Analysis

The ratings are presented by company, but are based on specific product types. Thus, companies that produce numerous types of products (e.g. shoes and outerwear) may receive different ratings for the different types of products.

● Report-Based or Real-Time

Because it is web-based and can be routinely updated, the system is set up to be a real-time system. Free2Work reaches out to companies every six months for updates, and some companies have taken the opportunity to submit new data.

● System Framework and Methodology

Currently, Free2Work's rating tool includes 32 indicators divided into five categories:

- "Corporate Policy" ascertains the labour rights included in a company's code of conduct (including a living wage) and if the company makes publicly available a list of its supplier facilities.
- "Code Implementation" measures the implementation of labour conditions monitoring programs and membership in multi-stakeholder initiatives.
- "Employee Empowerment" measures issues related to freedom of association.
- "Child Labour Response" measures policies to remediate situations of child labour.
- "Transparency" measures selected issues related to supply chain transparency.

The new categories for tool 2.0 will be:

- "Code of Conduct and General Policies" will ascertain the labour rights included in a company's code of conduct and if the company has general sourcing and management poli-

cies that aim to support worker rights and protections;

- "Transparency & Traceability" will measure the degree to which a company has traced, understands and oversees its supply chain, and the degree to which this information is made publicly available;
- "Monitoring" will ascertain the type of monitoring a company uses (if any), and how far down the supply chain monitoring is used; and
- "Worker Empowerment & Remediation" will measure issues related to wages and prices, worker empowerment and decision making, grievance mechanisms and remediation policies.

Additionally, Free2Work includes supplements for particular industries. For example, the rating for Apple Inc. includes a category of indicators specific to the electronics industry. The sub-indicators are "yes/no" questions weighted to give a numerical rating for each category. Depending on the total number of points achieved a company gets an overall letter grade between A and F. In order to receive an A grade, a company needs to have a "yes" answer to every indicator. A "C" grade is considered "Average."

As noted above, a new version of Free2Work 2.0 is currently being readied for release. It will provide ratings for three main supply chain levels. Free2Work's focus on companies' social compliance down the supply chain is intended to encourage corporate accountability to go deeper and to focus, in particular, at the raw materials level where labor rights violations are often egregious. (Note that only production stages of the supply chain are

assessed, and not others such as transportation or packaging. In the case of some industries such as agriculture, only one production process is present and thus only one will be graded.)

● **Public vs. Private Data**

The system includes a disclaimer noting that the ratings do not reflect actual on-the-ground labour conditions and rely only on publicly available information reported by companies. Publicly available information is limited to information available to anyone through company published reports and company websites.

● **Data Verification**

Draft versions of all the reports are submitted to the companies reviewed to request clarifications or further information. Companies have an opportunity to respond to drafts of the documents and may provide input, which the authors vet with stakeholders where possible and review for proof of implementation.

● **Focus on Labour Issues**

Labour issues are the primary concern of the system. Labour related indicators focus on whether management structures and initiatives are in place throughout a company's supply chain to ensure compliance with the four fundamental labour standards established by the International Labour Organization (ILO) throughout its supply chain. Significant weight is given to child labour, forced labour and freedom of association. Seventeen of the 32 system indicators relate to these three issues.⁹⁴

● **System Results Dissemination**

Results are available to the public via the Free2Work website. Visitors to the web site can access a company's ratings worksheet by product type. A free application is also available which delivers ratings to the user's smart-phone.

● **Follow-up/Feedback Processes**

Free2Work welcomes additional information and clarification from companies and the public regarding erroneous or incomplete information. The system also responds to companies who request further information or assistance in increasing their rating. Based on publicly available information, there appears to be no formal process in place for interested third parties to challenge the ratings.

● **Incentives for Companies to Participate**

Companies that rate well are able to demonstrate their commitment to the issues highlighted in this system and have the opportunity to differentiate themselves from their competitors.

5. Transparency Report Cards

Overview

This summary includes two rating systems. The Ethical Trading Action Group's Transparency Report Card Reports (ETAG Reports) and the Oxfam Hong Kong Transparency Reports for Hong Kong Garment Producers (Hong Kong Transparency Reports). When discussed together in this publication, these two systems are referred to as the Transparency Report Cards. These systems rate companies' based on publicly available information. The Maquila Solidarity Network (MSN) produced two transparency reports for ETAG, one in 2005 and another in 2006. Oxfam Hong Kong also produced two reports, one in 2006 and a follow-up in 2009.

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● Rating System Objectives

The primary objectives of the Transparency Report Cards are to evaluate companies' level of transparency on labour standards issues and to encourage companies to increase their disclosure related to labour standards and social compliance programs.

● Primary Audience(s)

The primary audiences for these systems are industry (brands, retailers and manufacturers), media, CSR advisors and ethical investors.

● Manufacturing Sector(s)

The ETAG and Oxfam reports analyze corporations in the apparel sector. Specifically, the ETAG reports focus on garment retailers and brands selling to the Canadian market (25 in 2005, 30 in 2006); the Oxfam reports focus on Hong Kong-based garment manufacturers (16 in the 2006 report, 26 in the 2009 report).

● What Does the System Measure?

The systems measure the existence and disclosure of company commitments, policies, procedures and activities related to labour standards in the supply chain.

● Unit of Analysis

The systems provide ratings at the company level.

● Report-Based or Real-Time

The Transparency Report Cards are report-based systems.

● System Framework and Methodology

The Transparency Report Cards utilize nineteen criteria (20 in the 2006 ETAG report) to evaluate and rate companies. These criteria are divided into five categories. The following is a description of each category. Where applicable, changes in the indicators within categories and the weighting given to each category in subsequent reports are highlighted.

- "Governance and Management" assesses company inclusion of labour standards into its high-level corporate governance and decision-making.
- "Code of Conduct" or "Policy"⁹⁵ assesses whether a company has a code of conduct that includes labour standards based on ILO Conventions and that is applied throughout the supply chain.
- "Stakeholder Engagement" assesses whether a company engages with stakeholders ranging from NGOs to unions.
- "Management" assesses a company's internal resource commitment, training and rewards related to labour standards issues.

- "Auditing and Reporting" assesses a company's auditing system and whether its results are made public.

The methodology of the Transparency Report Cards changed in their second iteration. The changes to the methodology made by ETAG were significant and reflected their effort to include "sustainable compliance" with labour standards into the rating system. Oxfam Hong Kong changed the weighting of some of their indicators in their second report. Thus, while the results of the ETAG 2005 report and the Oxfam 2006 report can be compared as "apples to apples," this does not hold true with the ETAG 2006 and Oxfam 2009 reports.

Each of the companies analyzed in the ETAG and Oxfam reports received an overall rating based on the scores in each of the nineteen criteria.

● Public vs. Private Data

Because the Transparency Report Cards were meant to assess the level of public disclosure by companies, the reports include a disclaimer noting that the ratings deliberately do not reflect actual on-the-ground labour practices and rely only on publicly available information reported by companies. Publicly available information is limited to information available to anyone through company published reports and their websites.

● Data Verification

Draft versions of the ratings were submitted to the companies reviewed to request clarifications or further information. Companies had an opportunity to respond to drafts of the documents and publicly disclose additional information that, if deemed relevant, would be included in the report.

- **Focus on Labour Issues**

Labour issues within the supply chain are the primary concern of the systems. The systems focus on the four fundamental labour standards established by the International Labour Organization (ILO), as well as other ILO Conventions regarding hours of work, health and safety, and security of employment. They also include indicators related to a living wage.

Notably, the amendments made to the 2006 ETAG report focused on including aspects of “sustainable compliance,” which were incorporated through, among other means, the inclusion of indicators related to whether companies had systems in place to respond to labour standard violation complaints by stakeholders.

- **System Results Dissemination**

Written reports are disseminated through respective websites.

- **Follow-up/Feedback Processes**

Oxfam and ETAG encourage companies to engage with them to review their ratings discuss approaches to increasing their reporting transparency and their ratings in subsequent reports. Based on publicly available information, there appears to be no formal process in place for third parties to challenge the ratings.

- **Incentives for Companies to Participate**

Companies that rate well are able to demonstrate their commitment to the issues highlighted in this system and have the opportunity to differentiate themselves from their competitors.

6. Let's Clean Up Fashion

Overview

The Let's Clean Up Fashion system was developed and is implemented by the UK-based labour rights organization Labour Behind the Label (LBL). The first report was released in 2006 and has been replicated yearly. The system relies on publicly available data, company responses to questionnaires, and interviews with company representatives to populate ratings. The system's methodology has changed over time to rate living wage, freedom of association and monitoring and verification issues. The most recent report only rates companies on efforts to achieve a living wage in their supply chain, although it also includes a discussion of freedom of association.

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● Rating System Objectives

The objective of the system is to rate the stated and actualized commitment of companies regarding living wage and freedom of association.

● Primary Audience(s)

The primary audiences for this system are media, labour rights advocates, companies and investors, as well as participants in the Ethical Trading Initiative.

● Manufacturing Sector(s)

Apparel companies operating in the United Kingdom.

● What Does the System Measure?

The system measures company commitment and actualization of efforts related to living wage and freedom of association in the company's supply chain.

● Unit of Analysis

The system provides ratings at the company level.

● Report-Based or Real-Time

The Let's Clean up Fashion system is a report-based system.

● System Framework and Methodology

Though the framework of the rating system has remained by and large unchanged since 2006, its methodology has changed. The first report produced by the system focused on three issues: living wage, freedom of association (FOA), and monitoring and verification. Each company was provided a numerical rating between one and five for each issue. In 2007, the system removed numerical scores and provided a narrative review of each company. In 2008, the system reintroduced the numerical grading, this time with half points and rated companies only on the living wage issue. The 2009 report maintained the same methodology as the previous year, but reintegrated a discussion of freedom of association. In the first three years, LBL sent surveys to companies, rated the results of the surveys, and then requested further feedback from the companies. In 2009, the system populated the rating with publicly-available information and then requested company feedback. The 2009 indicators regarding living wage are between a one and five, with half-points allowed.

● Public vs. Private Data

The Let's Clean up Fashion system relies on publicly available information, as well as company responses to questionnaires.

● Data Verification

The system submits draft versions of completed ratings to companies for review further information. Companies have an opportunity to respond to

drafts of the documents and may provide input, which the authors reserve the right to include or not.

● Focus on Labour Issues

The Let's Clean up Fashion system focuses specifically on living wage and FOA issues in the supply chain. Notably, issues related to FOA were removed from the system in the 2008 report, but were reintroduced in 2009. The original report and first replication in 2007 included interviews with workers at the factory level. These interviews were meant to provide supplementary information, but were not utilized to determine company ratings.

● System Results Dissemination

Written reports are disseminated through the LBL and other websites. The reports receive substantial media coverage in the UK.

● Follow-up/Feedback Processes

Labour Behind the Label encourages companies to engage with LBL to review their ratings and discuss approaches to increasing their commitment and activities related to living wage and freedom of association. Based on publicly available information, there appears to be no formal process in place for third parties to challenge the ratings.

● Incentives for Companies to Participate

Companies that rate well are able to demonstrate their commitment to the issues highlighted in this system and have the opportunity to differentiate themselves from their competitors.

7. Apparel Supply Chain Compliance

Overview

The Apparel Supply Chain Compliance system was launched by As You Sow in November 2010. It provides a comparative analysis of the supply chain performance of a number of major apparel companies publicly traded in the United States. The system focuses on social compliance issues. Data for the system is self-reported information provided by companies through a survey.

● Rating System Objectives

The objectives of the system are: to increase public knowledge of and rate company CSR initiatives; and to increase the amount and quality of publicly-available company compliance data.

● Primary Audience(s)

The primary audiences for this system are companies and investors.

● Manufacturing Sector(s)

Apparel companies publicly traded in the United States.

● What Does the System Measure?

The system measures comparable data regarding supplier standards compliance and CSR supply chain initiatives.

● Unit of Analysis

The systems provide ratings at the company level.

● Report-Based or Real-Time

The Apparel Supply Chain Compliance system is a report-based system.

● System Framework and Methodology

As You Sow sent surveys to the 34 largest apparel companies traded in the United States. Fifteen companies responded. Five of these companies submitted survey responses based on their entire supply chain, the rest based their responses on the percentage of their supply chain focused on apparel production. Companies self-reported information and were rated in ten key areas: code of conduct, auditing, remediation, supplier scorecard, preferred suppliers, continuous improvement, purchasing, collaboration, company management and accountability, and transparency.

- The code of conduct area measures whether a company has a code of conduct, how far into their supply chain it applies, whether it is public and if it is consistent with eight key ILO Conventions.
- The auditing area measures the approach companies employ to conduct factory audits, including, for example, their use of third-party auditors and verification, and whether they interview workers away from the factory.
- The remediation area measures the means used by companies to track, resolve, and follow-up on disputes, factory problems and audit results.
- The supplier scorecard area measures whether companies have and use supplier scorecards to assess supply chain management including social compliance.
- The preferred suppliers area measures whether companies have means to reward suppliers that meet or exceed, among others, social compliance benchmarks.
- The continuous improvement area measures companies' ongoing efforts to establish and

help suppliers achieve performance benchmarks through, for example, goal setting and training.

- The purchasing area measures company efforts to institutionalize production decision-making that accounts for on-the-ground effects. For example, last-minute changes to designs may lead to pressure for suppliers to demand excessive overtime for workers.
- The collaboration area measures company engagement with external stakeholders such as NGOs as well as inter-company collaboration to identify and overcome supply-chain issues.
- The company management and accountability area measures the engagement high-level decision-makers within a company have regarding CSR; and if there are management systems in place that incorporate CSR into strategic and day-to-day decisions.
- The transparency area measures whether a company publishes or plans to publish a social compliance report.

As You Sow assigns letter grades (from A to F with pluses and minuses) to companies on each indicator within an area. The letter grades are then converted into a total numerical score for each area. Each letter grade has a certain numerical value; but indicators within each category have different weights. The weight given to each indicator is not presented in the report.

● Public vs. Private Data

The Apparel Supply Chain Compliance system relies on self-reported company data, which includes publicly and non-publicly available information.

- **Data Verification**

As You Sow engages with companies to request further information for self-reported data that seemed irregular. Otherwise, self-reported data is taken and incorporated into the system at face value. As You Sow submits draft versions of their completed rating to the companies for review and further information. Companies have an opportunity to respond to a draft of the report and provide input, which the authors reserve the right to not include.

- **Focus on Labour Issues**

The Apparel Supply Chain Compliance report focuses on supply chain management and social compliance, specifically labour issues. These are addressed through indicators within the ten areas it analyzes.

For example, the code of conduct area rates companies on whether they incorporate eight core ILO Conventions; the auditing, remediation, purchasing, continuous improvement, and supplier scorecard areas assess whether systems are in place to identify and respond to, as well as prevent future

labour rights violations at the factory level; and the management and accountability and preferred suppliers areas measure the reward-based institutionalization of systems that help prevent labour rights violations.

- **System Results Dissemination**

The written report is available online. Results have also been promoted through webinars and other media.

- **Follow-up/Feedback Processes**

As You Sow encourages companies to engage with them to discuss approaches to improving their CSR activities. Based on publicly available information, there appears to be no formal process in place for interested third parties to challenge the ratings.

- **Incentives for Companies to Participate**

Companies that rate well are able to demonstrate their commitment to the issues highlighted in this system and have the opportunity to differentiate themselves from their competitors.

8. Clearing the Hurdles

Overview

In 2010, the “Clearing the Hurdles” rating system was developed by the Maquila Solidarity Network (MSN) for the international Play Fair (at the Olympics) campaign.⁹⁶ It was an online tool to publicize and evaluate commitments from eight leading sportswear brands on a set of actions proposed by the Play Fair campaign. The goal was to identify which brands were more willing to commit to actions that minimize precarious employment and the impacts of factory closures, and promote freedom of association and the payment of a living wage within their supply chains.

● Rating System Objectives

The primary objective of the system was to publicize brand commitments (or lack thereof) on key labour rights demands in the sportswear sector prior to the 2010 Winter Olympics.

● Primary Audience(s)

The target audiences were sportswear consumers and companies and the media.

● Manufacturing Sector(s)

Sportswear brands (apparel and footwear).

● What does the System Measure?

The system measures commitments on a set of twelve proposals put forward by the international Play Fair campaign in its 2008 report “Clearing the Hurdles.”⁹⁷ The twelve proposals were a subset of 36 in-depth proposals put forward in that report.

● Unit of Analysis

The ratings are presented by company. The online tool allows the user to view the ratings by company or to see all company responses on one indicator.

● Report-based or Real-Time

Although the system is web-based and can be regularly updated, it was based on a one-time survey. The survey may be updated prior to the London 2012 Olympic Games.

● System Framework and Methodology

After a meeting between Play Fair representatives and major sportswear brands in Hong Kong in 2008, a letter was sent to each brand asking for specific responses to 36 proposals on four key “hurdles” limiting progress on labour rights in sportswear supply chains:

- An anti-union environment in supplier factories;
- Poverty wages;
- Precarious work; and
- Factory closures.

Company responses on 12 of those proposals were summarized and rated according to a simple traffic light system:

- Green: The brand claims to implementing all components of this proposal or has agreed to implement them within Play Fair’s proposed timeframe;
- Yellow: The brand is currently implementing or has agreed to implement some of the essential components of the proposal, but has refused to implement, has overlooked, or has raised issues with one or more important components; or, the brand agrees to imple-

ment the proposal but not within Play Fair’s proposed timeframe;

- Red: The brand has refused to implement the essential components of the proposal; and
- Grey: The brand has misunderstood or failed to comment on the proposal; or the brand is considering the proposal, but has yet to make a decision.

● Public vs. Private Data

The ratings were based entirely on company responses to a private survey. Full company responses on all of the 36 indicators are publicly available on the Clearing the Hurdles website.

● Data Verification

The brands being reviewed were given access to the website before it went public, and some offered clarifications and/or made additional commitments, which altered the ratings in some cases.

● Focus on Labour Issues

Labour issues are the primary concern of the system. Rather than focusing on general management systems, labour standards, codes of conduct, or actual workplace conditions, the system was based on the understanding that the four “hurdles” were problems in all sportswear supply chains and the challenge was whether brands were willing to undertake serious actions to address them. The proposals put forward in the Play Fair report were specific, time-bound actions that the campaign was promoting as means of overcoming these hurdles.

● System Results Dissemination

Results are available to the public via the www.clearingthehurdles.org website. The website is

also available in Spanish and French. Visitors to the site can also email the brands urging action on the campaign's proposals through an online form.

- **Follow-up/Feedback Processes**

The ratings may be updated prior to the 2012 Summer Olympics. In the meantime, the Play Fair campaign is continuing to engage with sportswear companies on overcoming the four "hurdles".

- **Incentives for Companies to Participate**

Responses to the Play Fair surveys were largely a result of the involvement of key international stakeholders and ongoing engagement between the Play Fair partners, MSN, and the brands.

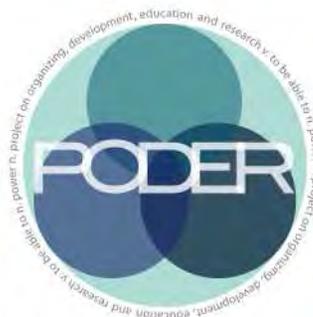
Endnotes

- 1 www.apparelcoalition.org/faqs
- 2 The term CSR is used to describe a company's policies and activities to address the positive and negative impacts of its operations on the environment, consumers, employees, supply chain workers, communities, other stakeholders, and the public good.
- 3 SustainAbility *Rate the Raters Report Phases 1 and 2*, <http://www.sustainability.com/library/>
- 4 Interview with Dr. Tim Connor, June 24, 2010.
- 5 Interview with Scott Nova, October 29, 2010
- 6 Interview with Dr. Rhonda Evans, July 7, 2010.
- 7 Interview with Samantha Maher, August 6, 2010.
- 8 Ethical Trading Action Group. *Coming Clean on the Clothes We Wear*. Transparency Report Card, 2005, pp. 5-7.
- 9 SustainAbility. *Rate the Raters Phase Two: Taking Inventory of the Ratings Universe*. October 2010, p. 5.
- 10 A 2010 report from Harvard University's Initiative for Responsible Investment recommends mandatory requirements for CSR reporting, based on a common set of KPIs for the industrial sector. See Lydenberg, Steve, Rogers, Jean and Wood, David. *From Transparency to Performance: Industry-based Sustainability Reporting on Key Issues*. Cambridge, Mass: Initiative for Responsible Investment, June 2010. Available at: http://hausercenter.org/iri/wp-content/uploads/2010/05/IRI_Transparency-to-Performance.pdf
- 11 There is promising work currently being done by the Fair Labor Association and Harvard Law School's Labor and Worklife Program to identify appropriate KPIs for global supply chains which companies can use to measure progress on labour standards compliance, and which could form the basis of standardized metrics for use by raters.
- 12 For more discussion on impacts of codes and monitoring, see Ethical Trading Initiative, *ETI Impact Assessment, Part 1*, October 2006. Available at: www.ethicaltrade.org/sites/default/files/resources/Impact%20assessment%20Part%201,%20main%20findings_0.pdf.
- 13 Also see Clean Clothes Campaign, *Looking for a Quick Fix: How weak social auditing is keeping workers in sweatshops*, November 2005. Available at: www.cleanclothes.org/resources/national-ccc/1166-looking-for-a-quick-fix
- 14 Notably, none of the companies ETAG rated received points for this measure. To date, Inditex (Zara) is the only apparel brand that has entered into a framework agreement with the Global Union for garment workers.
- 15 For more information on the Indonesian Trade Union Rights Protocol, see www.cleanclothes.org/news/indonesia-historic-pact-today-strengthens-sportswear-workers-union-rights
- 16 Interview with Conrad MacKerron, November 3, 2010.
- 17 www.csrwire.com/press_releases/27322-Johnson-Controls-Named-to-Canada-s-50-Most-Responsible-Corporations; and: www.maquilasolidarity.org/node/973
- 18 See, for example, ETAG. *Revealing Clothing: Transparency Report Card 2006*, p12.
- 19 See <http://procureitfair.org/companies-en>
- 20 www.goodguide.com/about/methodology
- 21 Interview with Darryl Knudsen and Geoffrey Geist, November 15, 2010.
- 22 McDougall, Dan. "African dream turns sour for orphan army," *Sunday Times*, August 2, 2009.
- 23 The Transparency Report Cards credited companies for joining a credible multi-stakeholder initiative. Given that these initiatives are now finding ways to differentiate achievement within their membership, that approach can be taken a step further.
- 24 Jill Esbenshade. *Monitoring Sweatshops: Workers, Consumers, and the Global Apparel Industry*, 2004. See also: *Clean Clothes Campaign. Looking for a quick fix: How weak social auditing is keeping workers in sweatshops*, November 2005, www.cleanclothes.org/component/content/article/7-publications/1166-looking-for-a-quick-fix.
- 25 www.goodguide.com/about/apparel_methodology
- 26 For example, Broomhill, Ray. *Corporate Social Responsibility: Key Issues and Debates*. Dunstan Paper No. 1/2007, pp 23-27, available at: www.som.cranfield.ac.uk/som/dynamic-content/research/doughty/Dunstan1.pdf
- 27 www.cdproject.net
- 28 Interview with Marcela Manubens, October 6, 2010.
- 29 Oxfam Hong Kong. *Transparency Report II*, March 2009, p.7. Although companies were rated on whether they engaged with Oxfam or not, the system's designers invited dialogue, engagement and efforts by companies to improve their performance in subsequent years.
- 30 Although payment of a living wage is not normally rated by most private-sector rating systems, it is measured by most of the labour rights NGO systems referred to in this paper, notably by the ETI, Let's Clean Up Fashion, Transparency Report Cards, Free2Work, and Clearing the Hurdles ratings.
- 31 Pictet. *Less can be more: a new approach to SRI research*. Geneva, March 2005, pp.3-7.
- 32 Interview with Darryl Knudsen and Geoffrey Geist, November 15, 2010.
- 33 Interview with Michael Kobori, October 15, 2010.

- 34 The GoodGuide provides significant detail as related to health, but less information regarding environment and social performance.
- 35 For more information, see <http://www.goodguide.com/about/methodology>
- 36 Interview with Jeff Rice, Director of Sustainability, Wal-Mart, October 7, 2010.
- 37 Company representatives that we interviewed expressed that they are more likely to pay attention to a rating system that is developed by key stakeholders that have significant reach or influence. If major global union federations or large global activist organizations endorsed a system and encouraged their members to act on its results, that system's influence would be considerable.
- 38 www.fastcompany.com/magazine/142/attention-walmart-shoppers-clean-up-in-aisle-nine.html
- 39 See, for example, Northwest & Ethical Investments L.P. *Taking Action on Executive Compensation*. 2009. Available at: www.neiinvestments.com/nei/files/PDFs/5.4%20Research/Executive%20Compensation%20Summary%20090708%20final.pdf
- 40 Conversely, a user can also look up a company name and access ratings of specific product lines owned by that company.
- 41 www.theglobeandmail.com/report-on-business/managing/report-on-corporate-responsibil/
- 42 For example, the GoodGuide rated both the Surf's Up Beach Barbie and Disney's Princess Belle doll at 0 out of 10 on "Supplier Labor Control-
versy" (the one indicator directly addressing reports of working conditions in the factories that manufacture the product), but the former received a 6.0 out of 10 general rating while the latter only received 4.0. A consumer that is concerned with supply chain working conditions would be wrong to assume that one company performed better on that issue than the other based on their overall score.
- 43 Interview with Trina Tocco, July 21, 2010.
- 44 Ethical Trading Action Group. *Revealing Clothing: Transparency Report Card 2006, 2007*. p.12.
- 45 Ethical Trading Action Group. *Coming Clean on the Clothes We Wear: Transparency Report Card 2005*, p.15.
- 46 *Montreal Gazette*. "Editorial: Ethical Clarity." December 4, 2005.
- 47 Ratings of many report-based systems are replicated annually, allowing for a longitudinal perspective on company progress on ratings. The ETI Management Benchmarks are an example of this approach, since its member corporations will be rated yearly on the same indicators. The Let's Clean Up Fashion reports have been conducted annually or bi-annually since 2006. Yet, its rating criteria have been changed almost every year. Similarly, methodological changes were also made to the subsequent iterations of the Transparency Report Cards. Some report-based systems do not release reports on a regular basis. For example, the ETAG Transparency Report Card ratings have not been conducted since 2006.
- 48 It is yet to be determined how the Wal-Mart Sustainability Index will disseminate ratings. It could do so through one or a combination of methods including a website or in-store product labels.
- 49 www.kld.com/research/methodology.html
- 50 www.goodguide.com/products/210615-barbie-surfs-up-beach-barbie-2008
- 51 SustainAbility. *Rate the Raters, Phase Two*. p13.
- 52 GoodGuide will, upon request, provide more detailed information to a company about its rating, which can allow the company to identify areas that need improvement.
- 53 The expression "greenwash" is commonly used as a pejorative term for promoting a false impression of an organization or product's environmental impacts. Similarly, "bluewash" refers to the same practice concerning human and labour rights issues, and comes from the practice of some companies associating themselves with the United Nation's Global Compact in order to dampen criticisms of their human rights practices.
- 54 The Worker Rights Consortium (WRC), for example, currently makes public this level of information on all the factory investigations it carries out on behalf of US university members. The Fair Labor Association currently publishes factory audit information identifiable by its member companies, including corrective actions required, but keeps the identity of the factory anonymous.
- 55 <http://walmartstores.com/pressroom/news/9277.aspx> and 2010 Wal-Mart Global Sustainability Report page 14: <http://walmartstores.com/Sustainability/7951.aspx>
- 56 Interview with Jeff Rice, October 7, 2010.
- 57 *Sustainable Product Index Fact Sheet*: <http://walmartstores.com/download/3879.pdf>
- 58 15 Questions for Suppliers <http://walmartstores.com/download/3863.pdf>
- 59 Sustainability Supplier Assessment: <http://walmartstores.com/download/4057.pdf>
- 60 Sustainability Supplier Assessment: walmartstores.com/download/4057.pdf.
- 61 Written response from Rand Wad-doups, Sr. Director Strategy & Sustainability for Wal-Mart, received July 14.
- 62 Interview with Jeff Rice, October 7, 2010
- 63 For information on the sustainability consortium, see www.sustainability-consortium.org
- 64 Sustainability Supplier Assessment: <http://walmartstores.com/download/4057.pdf>
- 65 Sustainability Supplier Assessment page 3: <http://walmartstores.com/download/4057.pdf>
- 66 Supplier Sustainability Assessment: <http://walmartstores.com/download/4055.pdf> and Wal-Mart Standards for Suppliers: <http://walmartstores.com/download/2727.lpdf>
- 67 Supplier Sustainability Assessment: <http://walmartstores.com/download/4055.pdf> particularly page 26.

- 68 <http://www.fastcompany.com/magazine/142/attention-walmart-shoppers-clean-up-in-aisle-nine.html>
- 69 www.ethicaltrade.org
- 70 The ETI Code focuses specifically on labour standards. In general, it follows the four fundamental labour standards established by the International Labour Organization (ILO). Beyond the ILO standards, of note is a focus on living wage and assuring that workers receive written notification of the wages they are meant to receive. Also, there is a focus on assuring workers are hired directly and formally. www.ethicaltrade.org/resources/key-eti-resources/eti-base-code
- 71 www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang-en/index.htm
- 72 www.ethicaltrade.org/resources/key-eti-resources/principles-implementation.
- 73 ETI Management Benchmarks. <http://www.ethicaltrade.org/resources/key-eti-resources/eti-management-benchmarks>
- 74 Interview with Julia Kilbourne, Head of Programmes for ETI, July 9, 2010.
- 75 Ibid.
- 76 Ibid.
- 77 Ibid.
- 78 www.ethicaltrade.org/about-eti/what-companies-sign-up-to
- 79 Interview with Julia Kilbourne, Head of Programmes for ETI, July 9, 2010.
- 80 www.ethicaltrade.org/in-action/mem-ber-performance
- 81 www.ethicaltrade.org/resources/membership-resources/annual-reporting-tools
- 82 www.goodguide.com/about with numbers based on interview with Dr. Rhonda Evans, Social Research Director GoodGuide, July 7, 2010
- 83 General guidelines of what each area measure can be found at: <http://www.goodguide.com/about/ratings>
- 84 www.goodguide.com/about/methodology
- 85 www.goodguide.com/about/aparel_methodology
- 86 www.goodguide.com/about/methodology
- 87 www.goodguide.com/about/health_methodology
- 88 www.goodguide.com/about/methodology
- 89 www.goodguide.com/about/methodology
- 90 Interview with Dr. Rhonda Evans, July 7, 2010.
- 91 www.goodguide.com/about/data
- 92 www.goodguide.com/about/methodology and interview with Dr. Evans. It should be noted that different SRI agencies usually rely on the same sources of data when producing their ratings (company reports and surveys, NGO and media reports). This means that a rating may appear to be based on input from many different sources but ultimately come from the same smaller set of base data.
- 93 www.goodguide.com/about/methodology
- 94 www.free2work.org/company-rating-tool
- 95 The Honk Kong reports use “Code of Conduct”; the MSN reports use “Policy.”
- 96 Play Fair is a global campaign coordinated by international trade union federations and NGOs; namely the International Trades Union Federation (ITUC), the International Textile, Garment and Leather Workers’ Federation (ITGLWF), the Building and Wood Workers’ International (BWI) and the Clean Clothes Campaign (CCC). The campaign calls on those who organize and profit from sports events to take specific steps to ensure that workers making sporting goods and building venues are not exploited, and that international labour standards are respected in the workplace as well as in the stadium. More info: www.play-fair.org
- 97 Available at: www.maquilasolidarity.org/clearinghurdles

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Solidaridad de la
Maquila
Solidarity Network
www.maquilasolidarity.org



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