

Coming clean on the clothes we wear

Transparency Report Card

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□ EXECUTIVE SUMMARY

**A Survey of Labour Standards Reporting by Retailers and Brands
Selling Clothes in the Canadian Market**

Ethical Trading Action Group (ETAG)

in association with AccountAbility

December 2005



The **Ethical Trading Action Group** (ETAG) is a Canadian coalition of faith, labour, teacher and non-governmental organizations advocating for government policies, voluntary codes of conduct and ethical purchasing policies that promote humane labour practices based on accepted international labour standards. ETAG promotes greater public access to information on where and under what conditions clothes, shoes and other consumer products are made, and greater transparency in monitoring and verification of company compliance with international labour standards and local laws. ETAG member organizations include: Canadian Auto Workers Union, Canadian Council for International Co-operation, Canadian Labour Congress, Canadian Union of Public Employees, KAIROS: Canadian Ecumenical Justice Initiatives, Maquila Solidarity Network, Ontario Secondary School Teachers' Federation, Oxfam Canada, Steelworkers Humanity Fund, and UNITE HERE.



The **Maquila Solidarity Network** (MSN) acts as the secretariat for ETAG and is the principal author of this report. MSN is a Canadian-based labour rights and solidarity organization committed to decent work and wages for garment workers worldwide. MSN's program combines research, policy advocacy, corporate campaigning and engagement, coalition building, international networking and solidarity. MSN acts as the Canadian contact point for corporate campaigns and CSR engagement, monitoring the labour practices of Canadian, US and European retailers, brand merchandisers and apparel manufacturers, engaging with companies whenever possible and mobilizing public pressure for improved policies and practices when necessary. For more information, visit: www.maquilasolidarity.org



AccountAbility is a leading international non-profit institute based in the UK dedicated to promoting accountability for sustainable development through the development of innovative and effective accountability tools. The rating system utilized in this research is based on the Gradient Index developed by AccountAbility. For more information, visit: www.accountability.org.uk

Purpose of the Report Card

The Transparency Report Card assesses and compares 25 apparel retailers and brands¹ selling apparel products in the Canadian market in terms of their **efforts to address worker rights issues in their global supply chains and on how and what they report on those efforts**. To access the full report and individual company report cards, visit: www.maquilasolidarity.org.

The Report Card is based on research carried out over the past year by the Maquila Solidarity Network (MSN), on behalf of the Ethical Trading Action Group (ETAG). The rating system utilized in our research is based on the Gradient Index developed by AccountAbility in the UK.

We have relied exclusively on materials made public by the companies being researched.

This Report Card assesses companies on the basis of:

- their programs to achieve compliance with recognized international labour standards in the factories where their products are made; and
- the steps they are taking to communicate thoroughly, effectively and transparently these efforts to the public.


The Report Card does not attempt to evaluate actual labour practices. Because of the lack of publicly available information on factory locations and audit findings, it is not currently possible to rate companies based on workplace practices or to evaluate whether progress has been made over time on labour practices or working conditions at the factory or country level. Nor does the Report Card assess how companies' labour standards policies and compliance programs apply to their retail employees. The focus of this report is exclusively on supply chains.

A central objective of this assessment is to encourage companies to disclose sufficient information to allow consumers and investors to evaluate and compare companies' labour practices and make ethical choices.

We believe that improved public reporting on labour practices within their global supply chains can be an impetus for corporations – and suppliers – to actually improve those practices over time for the following reasons:

- A company that discloses information about the content of its code of conduct subjects itself to public scrutiny about the contents of its code, its methods of monitoring code compliance, and its levels of compliance. This is a healthy dialogue that often leads to incremental improvements over time.
- Public transparency in all matters of corporate conduct, including labour practices, pushes corporations to implement better information gathering processes that ensure relevant information reaches officials with leverage to ensure positive changes in practices – even if only to reduce the risk of “bad” practices being disclosed to the markets.
- Credible public reporting permits consumers and investors to compare corporate performance, and thus encourages corporations to work to improve performance in order to maintain and improve market share and corporate reputation.
- A company that discloses where its factories are located will take a more active interest in the conditions in those factories because of the increased risk that those conditions will be discovered and reported by third parties

¹ The study does not include apparel manufacturers like American Apparel or Gildan Activewear because they exclusively or primarily use wholly owned manufacturing facilities.



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in a manner that could negatively affect the company's reputation.

- Public transparency permits civil society actors (unions and non-governmental organizations), in importing and producing countries, to monitor corporate claims and performance, which in turn encourages corporations to improve behaviour and to ensure that what they report to the public is accurate.

The Report Card is the first of what will be an annual assessment of labour standards reporting by apparel brands and retailers in Canada. It is our hope that this report will encourage all companies profiled to take additional steps to meet and exceed the standards of industry leaders. Companies that do so will see their rating improve in future report cards.

Research Methodology

In carrying out this survey, ETAG utilized and adapted the Gradient Index developed by AccountAbility in the UK.² The Gradient Index rates company reporting in five categories, with a series of questions in each category, to gauge each company's reported efforts to comply with international labour standards. The five categories are:

- Governance and risk management (board-level responsibility for ethical issues in supply chain) (10%)
- Code for labour standards in the supply chain (availability, quality, and application of code of conduct) (15%)
- Management (how a company implements its policies) (20%)
- Stakeholder engagement (involvement in multi-stakeholder initiatives, and engagement with labour/NGO groups in importing and producing countries) (20%)

- Auditing and reporting (auditing across the supply chain; third party involvement; labour/NGO involvement; publication of process, findings, and how a company addresses areas of non-compliance; and disclosure of factory locations) (35%)

The 25 apparel retailers and brand merchandisers chosen for the survey were selected based on their relative market share by annual sales of apparel, and on their prominence in the Canadian market. We decided to include both retailers and brand merchandisers in our study because they face very similar labour rights issues in their supply chains where their private label and branded apparel products are made.

Researchers gathered all available public documents for each company, including annual reports, corporate social responsibility reports, news releases, and web pages.

We invited each company to respond to our initial findings by supplying us with any additional public material which addressed the questions being asked, and to identify any other points we may have missed or misinterpreted. Fourteen companies responded, and eight of those companies sent additional materials, which altered the final ratings in four instances.³

² The Gradient Index was designed to allow for modification in the weighting given to each of the five categories in order to reflect the research priorities. ETAG has chosen to put more emphasis on transparent auditing and reporting and on engagement with local civil society organizations as a means of identifying worker rights violations and improving labour practices. Some minor alterations have also been made to the research criteria.

³ Materials provided by November 15, 2005 are included in our company assessments.

Executive Summary

	Governance and risk management	Code for labour standards	Stakeholder engagement	Management	Supply chain auditing and reporting	Total score
Levi Strauss & Co ⁴	100	63	83	47	73	71
Nike ⁵	70	42	83	47	85	69
Gap Inc. ⁶	40	33	100	47	85	68
Liz Claiborne ⁷	30	63	67	30	73	58
MEC ⁸	30	78	50	30	78	58
HBC ⁹	77	48	0	27	47	37
Wal-Mart	20	33	0	36	47	30
American Eagle Outfitters	0	48	0	42	37	29
Winners (TJX)	0	33	0	27	52	29
Roots	0	33	17	12	37	24
La Senza	0	93	0	15	15	22
Mark's Work Wearhouse ¹⁰	60	33	0	0	29	21
Northern Group	0	33	0	0	0	5
Sears Canada	0	33	0	0	0	5

**Table 1.
Company
Scores**

Public companies that score 0 on all criteria: Forzani Group,¹¹ Le Château, Polo Ralph Lauren, Reitmans.¹²

Private companies that score 0 on all criteria: Boutique Jacob, Giant Tiger, Grafton-Fraser, Harry Rosen, International Clothiers, Tristan and America, YM Inc.

⁴ Levi Strauss & Co is technically a private company, but because it has publicly-traded bonds, we have included it among the public companies. Levi Strauss & Co banners: Levi's, Dockers, Levi Strauss Signature

⁵ Information included in the Report Card only applies to Nike and Jordan brands

⁶ Gap Inc. banners: Gap, Banana Republic, Old Navy

⁷ Liz Claiborne banners: 28 apparel brands, including Liz Claiborne, Mexx, DKNY, Lucky Brand Jeans, Juicy Couture, Ellen Tracy


⁸ Mountain Equipment Co-op is a consumer co-operative in which the Board of Directors is elected by co-op members. While MEC is not technically a public company, its governance structure has more in common with a public company than a private one.

⁹ HBC banners: The Bay, Zellers, Home Outfitters

¹⁰ Mark's Work Wearhouse (MWW) is the apparel division of Canadian Tire Corporation. The rating for MWW is based on public reporting by Canadian Tire Corp.

¹¹ Forzani corporate banners: Sport Check, Sport Mart, Coast Mountain Sports, National Sports and franchise banners: Sports Experts, Intersport, Atmosphere, RnR

¹² Reitmans Canada Ltd. operates under eight divisions including Reitmans, Smart-Set/Dalmys, RW & CO., Penningtons Superstore, Thyme Maternity, and Addition-Elle



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Company Ratings

The chart on the preceding page compares the overall ratings of apparel retailers and brands based on their labour standards reporting. Detailed report cards for each company surveyed are available in Part II of the full report at: www.maquilasolidarity.org.

It should be noted that this study was based exclusively on publicly available information, and therefore some of the companies surveyed might be taking more action on these issues than they are reporting to the public.

What can we learn from the findings?

The following are ETAG's general conclusions based on the detailed findings outlined in the individual company report cards:

1. Room for Improvement

Based on ETAG's criteria, none of the companies surveyed is currently providing sufficient, credible and verifiable information to consumers or shareholders to allow informed ethical choices. Almost one half of the companies surveyed provide no publicly available information on their policies or efforts to address labour standards issues in their supply chains.

There are, however, significant differences in the kinds and level of information being provided by the companies that do report on labour standards issues.

2. Campaigning Pays Off

Companies that have been the target of anti-sweatshop campaigns for the past decade such as

US-based brand merchandisers Nike and Levi Strauss & Co and own-brand retailers such as Gap Inc. rate higher than other companies surveyed on the information they provide to consumers on how they are addressing worker rights issues in their global supply chains.

In general, these companies received higher ratings because they provide evidence of a comprehensive and transparent approach to addressing labour rights issues in their supply chains that includes, in addition to codes of conduct and factory audits, collaboration with other companies and labour and non-governmental organizations in multi-stakeholder initiatives, public reporting on audit findings and corrective action, labour rights training for workers and management personnel, and/or engaging with labour and non-governmental organizations in importing and producing countries.

The decision of two of these companies – Nike and Levi Strauss – to publicly disclose their supply factory locations contributed to them receiving the highest scores.

3. Canadians Lagging Behind

Canadian companies fare relatively poorly as compared to US-based companies. With the exception of Mountain Equipment Co-op, not a single Canadian company scores higher than the average score of all US-based companies surveyed.

4. Low Balling Standards

Of those companies that have made codes of conduct available to the public, few have codes that are consistent with International Labour Organizations (ILO) standards. Even some of the companies that rate highly in the Report Card,

including Gap Inc., have codes that fall short of ILO standards.

It is worth noting, however, that Gap has recently made a public commitment to the development of a universal code based on ILO standards and to the principle of a living wage. It will be important to monitor whether other companies follow Gap's lead in committing to such a universal code.

Companies with codes that address all core labour rights often qualify their commitment to freedom of association, non-discrimination and/or eliminating child labour by limiting it to compliance with local law, rather than international standards. Only Mountain Equipment Co-op and La Senza have publicly available codes that are consistent with ILO standards on hours of work. However, La Senza provides little information on how its code is implemented.

Of companies with publicly available codes, only the Hudson's Bay Company (HBC) and La Senza have incorporated a living wage standard in their codes. However, there is no information provided regarding the application of this standard in their supply chains.

5. Public Companies Report More

Most public companies disclose information on the efforts they dedicate to dealing with worker rights issues in their supply chains. Four public companies, however, score zero on all the research criteria: Reitmans, Polo Ralph Lauren, Le Château and Forzani Group.

6. Private Companies Report Little

With the exception of Roots, private companies disclose little or no information to their customers on their commitment to international labour standards or the steps they are taking to ensure compliance with those standards.

7. Size Doesn't Always Matter

Larger companies tend to perform better than smaller companies on reporting on labour standards and on their efforts to ensure compliance with those standards. However, some of the larger companies, such as Forzani, score much lower than smaller competitors, such as Mountain Equipment Co-op.

8. Stakeholder Engagement: A Key Indicator


Companies that engage with stakeholders tend to do well in most other categories of the Report Card as well. The five companies that rate the highest in the Report Card are also the only public companies surveyed that report engagement with stakeholders.

9. Lack of Training or Incentives

While a majority of publicly-owned companies have publicly available codes of conduct, very few report having upper-level management dedicated to labour standards compliance in the supply chain, very few report any systematic training for management personnel or workers, and none reports providing incentives for senior management and purchasing staff linked to performance on labour standards in the supply chain.

10. Lack of Board Responsibility

Only a small minority of companies report assigning specific responsibility for ethical issues in their supply chains to board members or committees. There is also very little reporting on labour rights issues as a risk factor for investors by any of the companies surveyed for this study.



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Recommendations

ETAG believes that combined and complementary policies and actions by various actors will be needed to adequately address labour standards issues in global supply chains. We therefore put forward the following recommendations to companies, the Canadian government, investors and consumers. If implemented, these recommendations would remove the veil of secrecy from Canada's apparel industry and set the stage for collaborative action to eliminate worker rights abuses in global supply chains.

Recommendations to Retailers and Brands

Improve your reporting

1. Provide transparent public reports on your company's code implementation program, including information on audit findings and corrective action taken, stakeholder engagement, worker rights training, and other steps your company is taking to meet and maintain compliance with international labour standards.
2. Publicly disclose the names and addresses of facilities manufacturing goods for your company.

Improve your labour standards program

1. Ensure that your code of conduct is consistent with International Labour Organization (ILO) conventions, with particular attention to the core conventions on child labour, forced labour, discrimination, and freedom of association and the right to bargain collectively, and that it includes provisions for payment of a living wage by local standards and hours of work that comply with ILO standards.
2. Assign overall responsibility for labour rights in the supply chain to senior management officials and, where applicable, to a committee of the board of directors.

3. Institute internal monitoring and external verification systems that provide accurate information on code compliance throughout the supply chain.
4. Ensure that code compliance staff and external auditors are qualified and properly trained to monitor labour standards compliance, particularly with respect to workers' rights.
5. Institute a staged approach that prescribes corrective action to deal with non-compliance. Do not "cut and run" when violations are discovered.
6. Engage with NGOs and labour organizations in importing and manufacturing countries.
7. Facilitate the active participation of local NGOs and labour organizations in code monitoring and remediation.
8. Facilitate worker rights training for workers and management personnel at the factory level and ensure that suppliers and workers are knowledgeable about their rights and responsibilities under the code and local law.
9. Join a credible multi-stakeholder initiative and collaborate with other companies and labour and non-governmental organizations on seeking labour standards compliance and long-term solutions to persistent industry-wide problems.
10. Take special steps to ensure respect for freedom of association in countries where that right is restricted by law.

Recommendations to the Canadian Government

Adopt policies and regulations that require and/or encourage companies selling apparel products in Canada to provide transparent reports on their efforts to meet and maintain compliance with ILO conventions in their global supply chains, including:

1. Regulations requiring companies to publicly disclose the factories where their apparel products are made, thereby creating a level playing field with companies that have already provided this level of transparency.
2. Regulations requiring companies, including private companies, to provide annual public reports on their efforts and progress in achieving compliance with ILO core conventions, and other relevant social and environmental standards, in their global supply chains.
3. Ethical procurement policies, based on ILO conventions, for federal departments, agencies and other bodies for the purchase of apparel and other textile products.
4. Preference in the granting of loans, grants, overseas investment insurance and other benefits to companies that have adopted codes of conduct that are consistent with ILO core conventions, are using third-party auditors to verify compliance with those standards, and are making public summaries of all audit reports and corrective action taken.

Recommendations to Investors

1. Work with other shareholders and stakeholders to pressure companies to improve their public reporting on labour standards issues where they have been found lacking.
2. Urge companies to provide sufficient information on their labour standards compliance programs, including audit findings and corrective action, as well as risk assessments of relevant issues, to allow investors to track progress and make ethical choices.
3. Call on the federal government to adopt regulations requiring all companies operating

in the Canadian market to release annual public reports on their efforts and progress in achieving compliance with ILO core conventions and other relevant social and environmental standards.

Recommendations to Financial Institutions

1. As part of due diligence in approving loans or credit, require that companies provide sufficient information on their labour standards compliance programs, including audit findings and corrective action, as well as risk assessments of relevant issues, to allow the lending institution to assess risk and track progress.
2. Work with other stakeholders to require companies to improve their public reporting on labour standards issues where they have been found lacking.

Recommendations to Consumers

1. Urge all retailers and brands selling apparel products in the Canadian market to provide consumers with sufficient information on labour practices in their global supply chains and their efforts to improve those practices for consumers to make ethical choices when they shop.
2. Urge companies that have done poorly in the Transparency Report Card to meet and exceed the ratings of industry leaders in the coming year.
3. Encourage all retailers and brands to work with labour and non-governmental organizations to improve working conditions in apparel supply factories around the world and to tackle root causes of persistent worker rights abuses in the industry as a whole.

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SUBJECT

Retailer reporting on labour rights issues in the supply chain

EVALUATED BY

Ethical Trading Action Group

COMPANY NAME	Mark	Group	
Levi Strauss	71	GROUP COMMENTS	<p>GOOD: <i>No longer in denial, admits there are serious problems and willing to engage with labour and NGOs on how to address them.</i></p> <p>NEEDS IMPROVEMENT: <i>Needs to improve reporting, listen to workers' voices and tackle root causes of persistent problems.</i></p>
Nike	69		
GAP	68		
Liz Claiborne	58		
Mountain Equipment Co-operative (MEC)	58		
Hudson's Bay Company (HBC)	37	GROUP COMMENTS	<p>GOOD: <i>Reporting on its code and monitoring process, but providing little information on problems encountered or how they are being addressed.</i></p> <p>NEEDS IMPROVEMENT: <i>Needs to join a multi-stakeholder initiative, engage with labour and NGOs on the ground, and facilitate training for workers on their rights.</i></p>
Wal-Mart	30		
American Eagle	29		
Winners (TJX)	29		
Roots	24		
La Senza	22		
Mark's Work Warehouse	21		
Sears Canada	5	GROUP COMMENTS	<p>GOOD:</p> <p>NEEDS IMPROVEMENT: <i>Still in denial. Needs to do his/her homework and get started.</i></p> <p><i>Absent without written excuse!</i></p>
Northern Group	5		
Boutique Jacob	0		
Forzani Group	0		
Giant Tiger	0		
Grafton-Fraser	0		
Harry Rosen	0		
International Clothiers	0		
Le Château	0		
Polo Ralph Lauren	0		
Reitmans	0		
Tristan	0		
YM Inc.	0		