

Introduction

"It is no longer a question if a company with a global supply chain will be held accountable for workplace standards at factories it owns or with which it contracts, but rather when."¹

Dan Henkle, Vice-President of Social Responsibility, Gap Inc.

Over the past ten years, anti-sweatshop campaigns and media exposés have succeeded in bringing the issue of worker rights abuses in global supply chains to the attention of consumers, shareholders and the public.

In response, a range of tools have been developed by companies, NGOs, labour organizations and governments to address problems in globally-subcontracted apparel production, including codes of conduct, internal monitoring and external verification, collaborative efforts among companies and with labour and nongovernmental organizations (NGOs), disclosure of supply chain information, and corporate social responsibility (CSR) reporting.

More recently, there has been an increasing convergence on internationally-recognized minimum labour standards and a growing recognition of the need for credible systems for monitoring and verifying compliance with those standards, as well as labour rights training for workers and management personnel and engagement with labour, NGOs and other stakeholders.

Customers and shareholders are seeking reliable information on what companies are doing to ensure that at least minimum labour standards are being upheld throughout a company's operations, and leading brands and retailers are learning that part of the business of satisfying customers and

investors involves effective communication of the company's policies and practices on social and environmental issues.

While many companies continue to release minimal information or broad and unconvincing statements on corporate social responsibility, leading retailers and brands are beginning to provide more comprehensive reports on their efforts to meet more specific social and environmental benchmarks.


Purpose of the Transparency Report Card

The Transparency Report Card assesses and compares 25 apparel retailers and brands 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.

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.

¹"Socially Responsible Sourcing: Gap Inc. Sees Supplier Ownership of Workplace Compliance as a Sustainable Solution," Dan Henkle, *Journal of Organizational Excellence*, November 11, 2005.



Coming clean
on the clothes
we wear

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.

Why Transparency Matters

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:²

- 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

² A growing volume of studies recognize the important role that disclosure and transparency can have in influencing positive change in corporate labour, environmental, and financial practices:

- A. Fung, Dara O'Rourke & Charles Sabel, “Realizing Labor Standards” in *Can We Put an End to Sweatshops?* (Fung, et al. (eds.), 2001)
- C. Williams, “The SEC and Corporate Social Transparency”, (1999) 112 *Harvard Law Review* 1197
- D. J. Doorey, “Disclosure of Factory Locations in Global Supply Chains: A Canadian Proposal to Improve Global Labour Practices” (2005), 55 *Canadian Review of Social Policy Journal* 104

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.

Clearly, problems in apparel company supply chains may persist even where companies have improved their public reporting. For example, Gap Inc. revealed in its Social Responsibility Report for fiscal year 2004 that while there were improvements in 51% of its Chinese supply factories since its previous

year's report, there was a decline in compliance in slightly over 48% of its production facilities in that country.³ However, the fact that Gap Inc. is reporting changes in monitoring findings from year to year allows interested parties to assess whether progress is being made and therefore makes Gap Inc. more accountable to shareholders, consumers, workers and other stakeholders.

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.

³ Gap Inc. attributed the higher incidence of reported worker rights violations to the increased number of joint factory inspections carried out by Gap Inc. compliance staff, arguing that involvement of more staff in monitoring visits allowed the company to uncover more problems. To access the Gap 2004 Social Responsibility Report see: www.gapinc.com.