

Revealing Clothing

Transparency Report Card 2006

Executive Summary

A survey of labour standards reporting by retailers and brands selling clothes in the Canadian market

**Ethical Trading
Action Group (ETAG)**
December 2006

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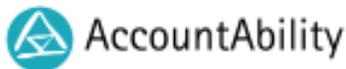


The Ethical Trading Action Group (ETAG) is a Canadian coalition of faith, labour, teacher and non-governmental organizations advocating for government policies, voluntary codes of conduct and ethical purchasing policies that promote humane labour practices based on accepted international labour standards. 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 Autoworkers 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 Schools 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, international networking and solidarity. MSN acts as the Canadian contact point for corporate campaigns and corporate social responsibility (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



The rating system utilized in this research was initially based on the Gradient Index developed by AccountAbility. AccountAbility is a leading international non-profit institute based in the UK dedicated to promoting accountability for sustainable development by the development of innovative and effective accountability tools. For more information, visit: www.accountability21.net

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Revealing Clothing: Executive Summary

The Transparency Report Card assesses and compares companies on the basis of their public reporting on the programs they have in place to achieve and maintain compliance with recognized international labour standards in the factories around the world where their apparel products are made. Companies are rated on whether and to what degree they communicate thoroughly, effectively and transparently these efforts to the public.

ETAG's 2006 Transparency Report Card shows that there have been incremental improvements in company reporting on their labour standards compliance efforts since we performed a similar assessment in 2005. Among the public companies assessed, reporting on labour standards compliance efforts appears to be on its way to becoming a business imperative.

As in 2005, the companies that received the highest scores were, with a few exceptions, those US and European brand-sensitive companies that have been the target of anti-sweatshop campaigns and media exposés over the past decade. The top ten companies in the 2006 Report Card include Levi Strauss (78), Reebok (77), adidas (73) Gap Inc. (71), Nike (68), H&M (64), Eddie Bauer (63), Liz Claiborne (62), and Zara (49).

However, one small Canadian company, Mountain Equipment Co-op, scored third highest in the 2006 Report Card (74). The dramatic increase in Mountain Equipment Co-op's score is a result of new reporting initiatives and engagement with stakeholders undertaken over the past year.

A second Canadian retailer, Mark's Work Wearhouse, also made a significant improvement in its rating since 2005.

The Hudson's Bay Company (HBC) and Wal-Mart also improved their scores, though not as dramatically as MEC or Mark's Work Wearhouse.

However, 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. Among these companies there are still significant differences in the kinds and level of information being provided on company efforts to address labour standards issues in their supply chains.

ETAG's 2005 Report Card highlighted general findings that were confirmed in our 2006 Report Card. They include:

- With some exceptions, public companies tend to report more than private companies;
- While there is convergence among company codes of conduct on core International Labour Organization standards, most codes fail to adhere to international standards on hours of work or provide for a living wage;
- With few exceptions, companies that openly engaged with trade unions, NGOs and multi-stakeholder initiatives received higher overall ratings even when their scores for engagement are eliminated;
- The highest ranking companies are those that have at one time or another been the target of high-profile public campaigns on labour issues by consumers, investors, trade unions and NGOs, suggesting that campaigning results in better reporting; and

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2006 Findings

Table 1: General Ratings

Company	<i>Governance and risk management</i>	<i>Code for labour standards</i>	<i>Stakeholder engagement</i>	<i>Management</i>	<i>Supply chain auditing and reporting</i>	<i>Total score</i>
Levi Strauss	100	70	79	79	73	78
Reebok	30	70	79	88	85	77
Mountain Equipment Co-op	80	85	72	63	75	74
Adidas	60	70	79	67	79	73
Gap Inc.	70	40	79	67	82	71
Nike	70	45	72	54	82	68
H&M	30	55	79	54	75	64
Eddie Bauer	30	55	79	46	75	63
Liz Clairborne	90	70	64	25	70	62
Zara (Inditex)	50	70	79	8	45	49
HBC	77	55	15	38	61	48
American Eagle Outfitters	58	55	8	58	37	40
Wal-Mart	20	40	21	33	60	40
Mark's Work Wearhouse	60	55	0	13	65	39
Winners (TJX)	30	40	0	46	52	36
Roots	0	70	8	13	37	27
La Senza	0	100	0	13	15	23
Lululemon	27	55	0	0	20	18
Sears	0	55	0	0	0	8
Northern Group	0	40	0	0	0	6
Reitmans	0	40	0	0	0	6
Polo Ralph Lauren	30	0	8	0	0	5
Boutique Jacob	0	0	0	0	0	0
Forzani	0	0	0	0	0	0
Grafton-Fraser	0	0	0	0	0	0
Harry Rosen	0	0	0	0	0	0
International Clothiers	0	0	0	0	0	0
Le Chateau	0	0	0	0	0	0
Tristan & America	0	0	0	0	0	0
YM Inc.	0	0	0	0	0	0



- Eight of the companies in this study report some factory-level audit results, but none report comprehensive results from audits at the factory-level.

Lack of Worker involvement

A crucial issue that is assessed in the 2006 Report Card, which was not included in the criteria of the 2005 Report Card, is the role of workers in companies' efforts to achieve and maintain compliance with international labour standards. Our assessment found that, in general, workers are being left out of the labour standards compliance process.

Audit results aren't shared with workers

Of the twelve companies in this study that make their audit methodology publicly available and report that interviews with workers are part of their code compliance process, none report making audit results available to workers. Thus workers may be disengaged from the process after the initial interviews.

Little worker rights training

Only one company, Reebok, reported facilitating ongoing labour rights training for workers. Others either focused their training efforts (if any) on factory management, or facilitated ad-hoc or pilot training programs rather than systematically involving workers in the process through worker rights training.

Limited complaints processes

Some companies have instituted 1-800 numbers or local numbers through which workers can relay complaints directly to the retailer or brand. Companies that were part of formal multi-stakeholder initiatives like the Fair Labor Association and Ethical Trading Initiative gained additional points for the availability of a third party

complaints system with a clearly-articulated method of investigating and acting on complaints which includes feedback to the complainant.

Lack of attention to "sustainable compliance" and purchasing practices

Many of the categories in our Transparency Report Card measure whether a company is taking steps to uncover and report on compliance problems in their supply chains. While adopting credible standards and measuring compliance with those standards is a critical step towards improving conditions, most leading companies and multi-stakeholder initiatives argue that companies must go beyond auditing and move towards identifying "root causes" of non-compliance and ultimately addressing the drivers of pervasive abuses to achieve more *sustainable* compliance.

Yet few of the companies assessed here report efforts to identify and address root causes of labour standards violations, and amongst those that do report on their efforts to tackle roots causes there are significant limitations in those reported efforts.

We analyzed company reporting on new measures developed to achieve sustainable compliance and highlighted the main approaches proposed by retailers and brands to address the issues. Companies have identified in their reports a range of potential "root causes" for violations, and a list of common approaches to addressing them.

Of the eleven companies that discussed "sustainable compliance" in their public reports, the majority identified the following as key changes needed in their current compliance programs: collaboration with other buyers (9 out of 11); improving supplier management

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systems and policies (8 out of 11); and factory management training (7 out of 11). There is less convergence on the issue of worker training, improved auditing, or changes to buyer production timelines, each a priority for less than half of the companies who addressed “sustainable compliance” in their reports.

Little attention to prices or positive incentives for compliance

Minimal attention is paid in company reports to two critical factors that impact on sustainable improvements in labour practices globally: the continual downward pressure on prices, and the lack of sustained commitment to keeping production at any specific factory. Only four of the companies surveyed made any mention of purchase price, and among those there was no suggestion that this was an issue they intend to address in their own supply chain. Only two of the companies surveyed mentioned development of longer-term relationships with factories as a strategy for achieving sustainable compliance.

We also asked whether the company offered positive incentives to suppliers for improvements in labour standards compliance. Only seven of the thirty companies surveyed reported that labour standards compliance was a positive factor in sourcing decisions. None of the companies reported offering any positive incentives to suppliers for improvements in labour standards.

Business model not up for discussion

Based on current company reporting, it seems that leading companies are beginning to recognize the limits of the auditing/policing model of labour standards compliance and are looking at new ways of building sustainable compliance. However, there is a greater emphasis in company reports on supplier and factory responsibility for labour rights abuses than on root causes that may be linked to brand or retailer practices. Furthermore, root causes that stem from the low-price/high-mobility business model adopted by the majority of the apparel industry are still not a major focus of discussion.

Brand or retailer capacity

This year we conducted a simple comparison of the ratio of a public company’s score in this Report Card to their annual sales.¹ Not surprisingly, the ranking of companies changes significantly. Smaller companies with fewer resources that are making significant efforts to report on labour rights issues in their supply chain compare favourably to companies like Wal-Mart, which, under this alternative rating formula, now sits close to the bottom rung of the ladder. Despite annual sales that dwarf some national economies (and which are over two-and-a-half times larger than those of the other 20 public companies combined), the world’s largest retailer is not even meeting the standards of a company like Mountain Equipment Co-op, even though Wal-Mart sells as much in five hours as MEC sells all year.

Conclusions

Based on this year's survey of reporting, ETAG's general findings are:

Room for Improvement

Based on ETAG's criteria, while there has been some incremental improvement by some companies since our 2005 Report Card, none of the 30 retailers and brands surveyed is currently providing sufficient, credible and verifiable information to consumers or investors to allow them to make informed ethical choices. And, while there is room for improvement at all levels, some of the largest companies should be expected to devote proportionally greater resources to labour standards compliance compared to smaller companies.

Workers left out of the process

With a few exceptions, most companies are not fully engaging workers in labour standards compliance efforts. While workers are often consulted during factory audits, no company reports providing feedback to workers on the results of those audits. In-country training programs tend to focus on supplier and factory management; there are fewer consistent efforts to train workers on their rights. There is some room for worker involvement through complaints systems. Some retailers and brands enable workers to lodge complaints directly with their company and one third of the companies in this Report participate in formal worker and third party complaint mechanisms through multi-stakeholder initiatives like the Fair Labor Association and the Ethical Trading Initiative.

Shift in approach

Some leading companies are shifting their approach to labour standards compliance by investigating root causes of persistent problems and trying to address

them. However there is still a general reluctance to examine whether the apparel industry business model of low prices and high mobility is a primary factor in encouraging lowering labour standards.

Few positive incentives

Some companies are integrating evaluations of a supplier's labour practices in their sourcing decisions, but none report offering positive incentives to suppliers or factories that meet or exceed labour standards such as increased orders, higher prices and/or longer-term supply contracts. This means that the risk of investing in improvements falls disproportionately on suppliers. They must shoulder the costs of compliance but have little guarantee that improvements will be rewarded.

Collaboration is critical

Collaboration with other companies, and with NGOs, and labour organizations is critical to addressing root causes of labour rights abuses. It is also a practical option for smaller companies that, on their own, do not represent a significant percentage of a supplier's capacity and therefore have less leverage. These cooperative efforts can be aided by increased public reporting and disclosure of factory locations.

Limits of reporting

Recent labour rights abuses discovered in the supply chains of some of the companies that score relatively high in this year's Report Card serve as another reminder that a company's relative transparency is, in and of itself, no guarantee of labour standards compliance throughout their supply chains. Our ratings in this Report Card reflect only the extent to which a company publicly discloses the presence of management tools, policies and systems to deal effectively with problems when they arise – not the existence or absence of problems at the factory level.