



# Stewardship 360: Impacting franchise value - Human rights & employment practices in the Apparel sector

**This Investor Forum Stewardship 360 project focused on human rights and employment practices within apparel companies and their supply chains.** The objective is for investors to gain insights into the:

- scale of illegal behaviour and potential risk to companies;
- steps taken by companies to protect their reputation and brands;
- standards and practices employed by companies; and
- culture and Board oversight that might give confidence that risks are understood and appropriately managed.

## 1. Project structure

### • Educate

The first stage involved input from independent experts to enable investors to understand and frame the issues. We have heard from the Gangmasters & Labour Abuse Authority (GLAA), Institute of Human Rights and Business, the Association of Labour Providers and founder of Fast Forward and Stronger Together initiatives, and the CEO of Staffline plc, a highly regarded labour supply agency.

### • Investigate

Investors are undertaking a series of company meetings to inquire into current practice and governance, taking the form of store visits, presentations, and distribution centre tours. The objective is to explore across the sector to establish “what good looks like” across luxury, online fast fashion, mid-range and the traditional retail offer. Further meetings will take place on 28<sup>th</sup> and 29<sup>th</sup> June.

### • Integrate

The intention is to help investors build a framework for diligence and identify key questions and red flags as they assess the evidence given by companies. We will consider the usefulness of reported non-financial information and review the credibility of external rankings.

### • Demonstrate

The final step will be to help Members show clients, government and regulators that investors use their stewardship roles as a force for economic and social good, and incorporate non-financial factors into investment decisions.

## 2. Notes from the 12<sup>th</sup> June 2017

This paper summarises some of the key insights for stakeholders that came from the 12<sup>th</sup> June meetings, following an initial workshop on 28<sup>th</sup> April. The next section records the input of the regulator of labour abuse in the UK and shares the insights into the labour supply market from a listed staffing agency. There are brief factsheets on the three apparel companies met on this occasion, with high-level notes from the meetings and the company comments mapped to our framework of project questions, with hyperlinks to company material for additional reading.

### 3. Preliminary stakeholder insights from 12<sup>th</sup> June research day

#### Companies

- Supply chains are hugely **complex**, and it is important for companies to explain the journey that they are on to understand the risks and address issues. Recognising failings and explaining challenges can enhance a company's **credibility**. Some action is best taken at industry level, **in collaboration with others**.
- Ethical supply chain management and high CSR standards **requires significant resource** to do properly. Tone from the top is critical in getting these resources effectively deployed, and is seen as a necessary cost of doing business and protecting the brand.

#### Customers

- Consumers, especially millennials, care about the broader social and environmental agenda, and want to connect with brands that fit their values. Expectations are rising around the **customer experience** and 'storytelling' associated with products.
- In the luxury sector, customers implicitly assume that companies are doing the right thing. With higher gross margins, this sector has **the incentive, power and influence** to implement change through their supplier contracts.

#### Employees

- Most consumer product manufacturing in the UK goes through the **supply chain of the big retailers** and UK listed companies. If these companies, with the support and encouragement of their shareholders, took **robust steps to address the issue of modern slavery**, this would be a significant step towards eradicating it. This would free the **GLAA to focus on the egregious practices** in black market operations.
- Labour supply agencies have a **critical compliance role** in monitoring the status of the people they supply as a temporary workforce. Agencies have differentiated offers; one approach is to build a **reputation and seek to protect** the client's brands from damage.

#### Shareholders

- Various external benchmarks can be important indicators of **relative industry positioning and best practice**, and can be tools used internally to assess the success of programme efforts. Companies and investors should understand the methodology and limitations underlying the assessment.
- There are trade-offs to be made between installed capex in automation and integration, the low (but rising) cost of flexible labour, and the high potential cost of mismanaging this labour.

#### 4. Expert opinion

##### **Gangmasters and Labour Abuse Authority**

Speaker: Paul Broadbent, CEO

- The Gangmasters Licensing Authority (GLA) was created after the Morecombe Bay incident to regulate employment in food and farming. Since May 2017 the Gangmasters and Labour Abuse Authority (GLAA) has taken on the role and remit of the GLA, fully funded by the Home Office. It has also been granted police-style powers to investigate labour abuse and exploitation across all aspects of the UK labour market.
- The GLAA licensing scheme regulates businesses who provide workers to the fresh produce supply chain and horticulture industry, to make sure they meet the employment standards required by law. Labour providers are assessed to check they meet the GLAA licensing standards which cover health and safety, accommodation, pay, transport and training. It is a criminal offence to supply workers without a licence or use an unlicensed labour provider.
- The Agency is a small organisation which is intelligence led. It tries to do three things: prevent exploitation, protect victims, and pursue traffickers. Intelligence might come through the ACAS helpline, the CAB or trade unions, but one widely marketed hotline for any person to air concerns would be a useful improvement. Investors are invited to call the GLAA if ever they have concerns.
- No government sponsored central registry of Modern Slavery Statements exists, which is regarded as a failure of the legislation. This is likely to be addressed at some point. In the meantime, there are two central repositories for statements: <https://business-humanrights.org/en/find-companies> and <https://tiscreport.org/>.
- The introduction of the new Labour Market Enforcement (LME) undertakings and orders regime introduces a broader and harder edge to enforcement of labour market offences where these are committed deliberately or recklessly and are not simply a consequence of a straightforward administrative error. LME undertakings and orders means that, for the first time, a prison sentence can ultimately result from some key labour market offences that previously only attracted a civil penalty or criminal fine. A two-year custodial penalty and/or unlimited fine is available where a business breaches an LME order which has been made by a court. However, this is balanced by providing the employer with ample opportunity to make a sustained change to their behaviour to avert prosecution. The regime is designed to ensure that employers are no longer able to treat fines as acceptable business overheads.
- If companies are able to show their due diligence, systems, processes and people are strong, and slave labour creeps in, the company is the victim. The GLAA is not interested in 'name and shame' headlines, but is aware of commercial sensitivity and brand reputation, and can work with companies to address the issue they discover.
- The Taylor Review has been commissioned to consider how employment practices need to change in order to keep pace with modern business models. The review will consider the implications of new forms of work, driven by digital platforms, for employee rights and responsibilities, employer freedoms and obligations, and our

existing regulatory framework surrounding employment. Paul Broadbent, CEO of the GLAA, is on this panel, and the report is expected to be published shortly.

- Cash in hand payment is always a warning flag. There is no excuse, other than tax avoidance, to pay cash for anything these days.
- Companies can ask their suppliers to get a GLAA licence and uphold the required standards across all suppliers, not just in the food business (for example, M&S have extended the requirement to have a licence to their UK non-food suppliers).
- The main risk areas are industries that use lots of temporary labour to cope with peaks and troughs in seasonal demand characteristics, such as catering, cleaning, care homes, construction, car washes, warehouses, and farming.
- Exploitation may be as simple as failing to pay the minimum wage or holiday pay, or false self-employment, but exists on a continuum to people being physically and psychologically controlled and exploited for their labour.
- Investors should ask companies what they are doing to manage and identify modern slavery as it relates to labour exploitation in their supply chain. To what extent do their statements reflect the reality of what is happening? If large retailers take the matter seriously throughout their supply chain, with the support and encouragement of their shareholders, this would go a long way to eradicate modern slavery in the UK, as most manufacturing ends up in their stores. This would free the GLAA to focus on the egregious practices in black market operations such as cash washes and nail bars.
- The GLAA has promised to create a checklist for investors.

### **Labour supply agency perspectives**

Speaker: Andy Hogarth, CEO Staffline Group plc

- The Staffline Group was established in 1986 and over time has grown into a national organisation specialising in logistics, e-retail, manufacturing, driving, food processing and white-collar recruitment. It listed on AIM in 2004, and now has revenues of £1bn, and a market cap of £400m.
- They have a daily workforce of 50,000 people, 75% of whom are Eastern European. UK citizens make up only 22% (compared to 34% in the recession) of their workforce. The average person on their books works for 33 hours a week, with an average tenure as a temporary worker of 33 weeks.
- The company prides itself on its compliance focus. For a long time, they were undercut by competitors, and only recently has their reputation become valued by retailers, who want their own brand protected. Some customers put pressure on price, and Staffline walk away from the contract because it cannot be done to their standards. The customer then uses another agency, who either goes bankrupt or cuts corners.
- The original compliance function focused on preventing illegal workers entering their workforce. In 2012, this function broadened to check that applicants were not

being exploited. Most exploited workers have the right to live and work here (EU), but come under the control of organised crime.

- Customers are in total control of the contract with the labour agencies they employ, and the excuse that the agency is the one imposing a discipline policy is not credible. Companies can set their expectations of what a worker will deliver for them, and if the worker cannot deliver, where others can, it is not unreasonable for them to not be supplied to the customer again.
- Staffline has identified a series of red flags that they train their staff to look out for as danger signs of exploitation which include where bank accounts, mobile numbers, addresses and next of kin are shared by a number of people. Details are below:

The infographic features a dark red header with the Staffline+ Group plc logo and the tagline 'People Skills Jobs'. Below the header, there are ten red, rounded rectangular boxes arranged in a grid, each containing a specific red flag and a brief explanation. The text is white and black for readability against the red background.

## Red Flags

**Staffline+ Group plc**  
People Skills Jobs

- Shared mobile numbers/contact details**  
Make sure that they share with a family member - someone that they choose to share with not forced to have as their contact number
- Multiple application forms submitted by one worker**  
All application forms should be completed individually by each applicant only
- Rumours from other workers (including factory floor chat)**  
Listen to chat or information from workers - they will divulge valuable information when in a comfortable work environment with colleagues
- Shared bank accounts**  
Only allow for one person to share with a family member or partner to ensure that the worker receives the wages that he/she has earned, and reduce the risk of someone else taking them. Check the application form - make sure that surname matches worker or they know the account holder
- Someone not employed by Staffline introducing a number of potential candidates**  
Very common sign of illegal gangmaster activity taking place - controlling the work of candidates - watch out for this one
- Physical appearance - unkempt**  
Worker may show signs of injury and malnourishment and their general appearance may be unkempt with inappropriate clothing
- Transporting of workers together**  
Look out for large groups arriving in a minibus / estate car that you don't recognise - usually all of one nationality. More often than not, it is an old model, uninsured and un-roadworthy
- Multiple housing occupancy**  
Look out for too many workers in one address, need to make sure that they are in habitable, comfortable housing conditions and no over-crowding. Numbers of people registering together with same address - possible sign of exploitation taking place
- A rise of non-English speakers**  
There may be a sudden rise of a certain nationality where they are organised by a particular consultant at a site or a client supervisor of the same nationality
- One worker providing food for other workers**  
Look out for an individual worker bringing in bulk sandwiches etc to provide for other workers in his/her gang
- Where did they hear about the vacancy?**  
Another agency? Friend? If from their landlord, push for more information - what exactly was said by the landlord? The reason for this is that the landlord should have nothing to do with the work placement

Human trafficking is the fastest growing criminal industry in the world, second in profitability only to drugs. Severe exploitation is growing!  
UK Human Trafficking Centre report cases of human trafficking increasing by 67% between 2010 and 2012. 19% of these recorded cases occur within the food and agriculture sectors.  
Help us minimise the risk of it happening in our business, look out for the signs, and please call the Compliance team if in doubt, however small a sign it may be.

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## 5. Company factsheets

### Burberry plc

Meeting attendees:

Store tour: *Jan Furstenburg* - General Manager of Regent St store; *Sue Farrow* - VP Retail UK & Ireland;

Q&A: *Julie Brown* – Chief Financial and Operating Officer; *Leanne Wood* – Chief People and Corporate Affairs Officer; *Roberto Canevari* – Chief Supply Chain Officer; *Pamela Batty* – VP, Corporate Responsibility; *Charlotte Cowley* – VP, Investor Relations

### **Notes:**

Burberry fielded a diverse team of executives from across the business divisions in order to provide a comprehensive insight into the many issues raised by this engagement request.

The tour of the London flagship store gave insight into the pride that the team take in the heritage of the Burberry brand. The focus on customer experience was not to the detriment of the staff working on the shop floor. Dress code incorporated comfort – there was no ‘mandatory high heels’ policy, staff were valued for their language skills and sales record rather than appearance, and the security and focus on health and safety in the store was apparent. A new management restructure has been introduced to allow more focus on personal development and talent management.

As a luxury brand, they felt that customers assumed that they were doing the right thing in their supply chain, and it was rarely explicitly brought up, but they understand the millennial interest in sustainability, and the associated spending power.

The “[Responsibility Journey](#)” document was aptly named for describing the gradual path of incremental improvement, and the acknowledgment of the work still to do. They have struggled to meet the commitments regarding energy usage. The biggest risks are in skill shortages (for the heritage “made in England” trench coats and in leather manufacturing).

### **Global standards -**

- Burberry's Human Rights policy aligns with UN Guiding Principles on Business and Human Rights, and they are a signatory to the UN Global Compact, member of, amongst others, the Ethical Trading Initiative, Better Cotton, ZDHC, and an accredited Living Wage employer. They stated that they have the Sustainable Development Goals in mind when formulating the next 10-year plan.

### **Risk awareness**

- The Five-year responsibility strategy was first launched in 2012, and included an environmental impact reduction programme. The new 10-year plan will be published shortly.
- The first Human Rights impact assessment was completed and an action plan drawn up in 2014.

[Modern Slavery statement](#) - Recognised in 2015 as a top 5 FTSE 100 company disclosure.

**Focus**

- They established an external Impact Advisory committee in 2013, which acts as a 'critical friend'. Internally, they have a Responsibility Working Group.

**Governance**

- Burberry's Chief People and Corporate Affairs Officer is responsible for all internal people matters as well as health and safety, ethical trade, community investment and environmental sustainability, and regularly reports on these topics to the Group Risk Committee and the Board. She also chairs the Responsibility Working Group, which consists of senior executives from relevant business units and oversees the development of Burberry's responsibility commitments and strategies.
- Supply chain risk is part of the Audit Committee remit. They audit 100% of finished good suppliers, plus their top 15 raw material suppliers.

**Communication**

- They care about their ranking on the Dow Jones Sustainability Index, in which they were included in 2015 for the first time.
- Burberry scored 25/100 in the Fashion Transparency Index 2017 (making them above average), with high scores for policy and commitments, and low scores for traceability.

## **ASOS plc**

Meeting attendees:

Simon Platts - Sourcing Director; Louise McCabe - CSR Director; Alice Strevens - Head of Ethical Trade; Greg Feehely – Director of IR.

Note we will follow up on changes to employment practices at the distribution centre tour scheduled for 28<sup>th</sup> June.

### **Notes:**

“Fashion with Integrity” gives ASOS four strong pillars around which to build its responsibility programme touching customers, community, climate and ethical trade. With a growing CSR team (currently six, but more resources being added) and clear tone from the top, the company has a long-term goal to not cause harm as it matures. The new team is picking their priorities and addressing what they perceive as the highest risk areas first. Supply chain mapping has been completed, and a full list of factories published.

Integrating the work into the product story and customer experience is work in progress. For the customer to click through to see the exact factory that a piece of clothing was made in would be the ultimate aim. This is just one area of the customer proposition that they are investing in.

They have a working group mapping their risk “dirt to door” across the stock and no-stock (ie laundry, delivery companies, IT etc) chain, and aim to know and be influencing throughout by 2020 – though it is complicated.

They claim the willingness to state the uncertainties and challenges upfront fits within their values, is authentic, shows leadership and their passion to improve lives, not just make a statement. The expectations placed on them are high – not to be perfect, but to be proactive in finding the underlying cause of complex issues and respond promptly to problems. The Dispatches programme did not hurt them too much, because of their robust reactions and response, but does appear to have resulted in some changes to employment practices, which will be explored in more detail on our visit.

### **Global standards -**

- They are UN Global Compact signatories, and part of the industry ACT (Action, Collaboration, Transformation) initiative on Living wages.
- The company was very clear that some challenges require a sector level response.

### **Risk awareness**

- Strategic priorities: Transparency, gender equality, modern slavery, child labour.
- Their biggest challenge is around their third party brands, of which there are over 850 on their site. A team has recently been set up to help these companies, as ASOS have leverage to increase the pace of change and share best practice. The team is currently developing and testing a methodology for brand assessment. Ultimately, if a brand cannot come on a journey to improvement, it would have to be removed from the platform.

**Modern Slavery statement** - commended by ILO and BHRC



## **Focus**

- They have a non-stock supplier integrity group, chaired by their CFO.
- They published a [Performance and Commitments](#) factsheet showing the areas of focus for the coming period.

## **Governance**

- They use their own risk and audit methodology and conduct all audits unannounced.
- The strategic priorities are agreed at plc level, and the Board receives a report on progress.
- They do have a whistleblowing process, but it is not global, and they are concerned that in some circumstances, using it can lead to the worker in a third party factories being sacked. ASOS prefer talking to trade unions to find a global framework. They also have 'We're Listening', a confidential, independent helpline for employees.

## **Communication**

- Published a factory list for the first time ever at the end of March; now published every month. This shows gender split, including by factory. There is a commitment on deeper mapping through tier levels over time.
- They viewed the Fashion Transparency Index favourably, as the methodology has recently improved. They aspire to be higher (currently score 33/100) but are constrained by the scoring criteria around global living wage. They use similar reports to review some brands they sell. The Australian Baptist World Aid was commended as a good report with robust methodology - the company scored 'B-' in the Slavery & Labour Rights grading in April 2017.
- In August 2016, ASOS was named the UK's most reputable fashion retailer, according to RepTrak.

## **Mark & Spencer plc**

Meeting attendees:

Helen Weir – CFO; Paul Burns - Head Operations, Clothing and Home; David Guise – Human Resources Director

### **Notes:**

One of the new commitments in the [Plan A 2025](#) plan is “to champion Human Rights by taking a lead on addressing in-work poverty, modern day slavery and an inclusive society”. It is a huge challenge, and one that they are working with Oxfam in addressing. Other commitments address sustainable living, communities, and ensuring “100% of products address 100% of their material social and environmental impacts”.

Their Castle Donnington warehouse was designed for them. The automation brings the product to the packer, saving the workers walking for miles throughout the warehouse. This can lead to pinch-points at peak times, raising questions around the trade-off between automation and labour flexibility. The facility employs 1,300 staff plus an additional 1,500 at peak times. Staffline have recently won the contract for labour supply. Following consultation with staff, the shift pattern at the warehouse has recently been simplified. The facility is in a high employment area, with many other warehouse options, so pay is relatively competitive, with parity paid to agency and own staff. They replicate benefits, such as the ‘volunteering day’ for CD staff, and staff get part of a site achievement scheme bonus.

M&S are not a Living Wage Foundation accredited employer, but are “confident” they are top quartile with all benefits.

They have a ‘Business Involvement Group’ rather than trade unions, and have seen no groundswell for unionisation. The national chair of BIG presents to the plc board once a year.

The London store have a link to a local homeless charity, and are sending all food waste that can be used to them at the end of each day.

### **Global standards -**

- UN Global Compact signatories since 2016, multiple industry initiatives.

### **Risk awareness**

- The Board completes a Group Risk Profile every six months. Key social and environmental risks such as climate change are assessed separately, but are generally considered as contributory factors to wider business risks related to the M&S brand and the continuity of our operations and supply chain. The approach to risk management is outlined in the Annual Report. Social and environmental risks are outlined in the Plan A Report.

## **Modern Slavery statement**

### **Focus**

- The Sustainable Retail Advisory Board meets every 6 months to provide guidance and insights.

**Governance**

- The CEO oversees the work on sustainability. He is supported by the M&S plc Board and Operating Committee who are responsible for ensuring that every part of the business is clear about its Plan A obligations. The main Board is updated on Plan A at least once a year.

**Communication**

- The Fashion Transparency Index scored M&S 48/100, the third highest of the 100 brands assessed.
- A full factory list is published.