



October 2017

Victoria Sant / victoria.sant@investorforum.org.uk / + 44 20 7611 2217

STEWARDSHIP 360 PROGRAMME

Making the case for the long term is one of the Forum's core objectives. The Stewardship 360 Programme focuses on issues where we can make a unique contribution drawn from practical experience of collective engagements between investors and UK companies.

The Investor Forum organised a series of workshops to increase awareness of working practice related issues in the apparel industry, including in depth discussions with eight companies through a series of meetings and bespoke trips to visit operations.

Representatives from twenty one of our Members have participated in this programme.

Summary

This document provides investors with a framework to analyse the complex issue of working practices in the apparel industry and a practical toolkit to help incorporate these perspectives into the investment process.

The Framework identifies four areas of focus and proposes a toolkit to evaluate each issue along with a series of questions that investors can use to engage with companies.

We also review approaches to reporting, Modern Slavery Statements, a range of collaborative initiatives and independent benchmarks and highlight relevant aspects of the recent Taylor Review of Modern Workings Practices.

Investor Framework

- **Working Practice Policies** – What is the company's approach to working practices and human capital management throughout the supply chain?
- **Risk Assessment and Controls** – How comprehensive is the company's understanding of the scale and threat of labour exploitation in the supply chain? How effectively does the company respond to and mitigate the identified risks?
- **Commitment to Improve** – How ambitious is the company in working with other businesses, suppliers and contractors to drive up standards and encourage good working practices?
- **Communication and Transparency** – How successful is the company at communicating its culture, principles and standards for working practices and ethical supply chain management?





1: Working Practice Policies

Focus

- What is the company's approach to working practices and human capital management throughout the supply chain?

Evaluate

- Review and critically evaluate **the narrative reporting** provided by the company. If sufficient information is not available, join the calls for enhanced disclosure. (See Section 1)

Engage

- How does the company think about the “**quality of work**” within its organisation? (See Annex A)
- Is there a Board Director with explicit responsibility for supply chain oversight and employment practices, including over-sight of modern slavery risk?
- What factors drive the use and appointment of labour supply agencies? How are the suppliers monitored and evaluated?
- Is there a robust grievance mechanism for employees to raise issues? Do they monitor whistleblowing practices of key suppliers?

2: Risk Assessment and Controls

Focus

- How comprehensive is the company's understanding of the scale and threat of labour exploitation in its supply chain? How effectively does the company respond to and mitigate the identified risks?

Evaluate

- Assess the **Modern Slavery Statement** against best practice standards. (See Section 2)
- Review the **Risk Report** and independent assurance statement for references to supply chain risks.

Engage

- Has the company completed a supply chain mapping and risk assessment with internal audit?
- How are risks addressed at board level?
- How effective is the company in highlighting the risks of labour exploitation to its staff?



3: Commitment to Improve

Focus

- How ambitious is the company in working with other businesses, suppliers and contractors to drive up standards and encourage good working practices?

Evaluate

- Identify which **collaborative initiatives** the company participates in, and consider what this evidences in terms of commitment. (See Section 3)

Engage

- Does the company adopt the UN Guiding Principles and Global Compact? If not, why not?
- Does the company participate in any industrywide initiatives? Why these groups, and what are they seeking to achieve?

4: Communication and Transparency

Focus

- How successful is the company at communicating its culture, principles and standards for working practices and ethical supply chain management?

Evaluate

- Review the company's ranking in **external benchmarks**, which are often used by consumers and other stakeholders, and can highlight areas for further engagement. (See Section 4)
- Where applicable, consider the company's **response to allegations** of poor practice, and what this might reveal about the culture of the organisation.

Engage

- How does the company make its disclosures to all stakeholders, including customers, employees and investors, appropriate?
- What is the company doing to improve this over time?



1: Working Practice Policies

Company disclosures should foster improved investor understanding of the role played by the company's workforce in creating sustainable, long-term value. Consumers, especially millennials, care about the broader social and environmental agenda, and want to connect with brands that fit their values. Disclosures should encourage investors to ask more questions of companies in order to understand both how they manage the risks inherent within a workforce, and how opportunities for development and growth are maximised.

A company's publically disclosed statements are the obvious first source of information on its approach to human capital management. As intangible assets, description of the talent and workforce is generally absent from the financial statements, but there are increasing calls for more information to be included in the reports.

Investor Toolkit

Narrative reporting

Narrative reporting can be used to link a company's approach to its workforce to its underlying purpose and strategy, and should provide more than a bland disclosure against a long list of prescribed metrics. The use of consistently reported, concrete, comparable data where possible should provide evidence to support the narrative, which contextualises the data.

We would encourage companies to go beyond the minimum reporting requirements in the Strategic Report given investor and broader stakeholder interest. Many investors want to understand where there may be hidden reputational or litigation risks, including in out-sourced relationships. They also want to ensure that employment models are aligned with long-term success of the company.

There are calls for greater transparency on human capital management and metrics that external stakeholders might use to identify concerns. The potential disclosures should enable investors to ask more questions of companies in order to better understand both how it manages the risks inherent within a workforce, and how opportunities for development and growth are maximised.

Calls for further disclosure

Workforce Disclosure Initiative - ShareAction is leading the [Workforce Disclosure Initiative](#) ("WDI"). The WDI calls for more comprehensive and comparable data on company workforces, given that the lack of such data and its poor quality has been identified as a key barrier for investors seeking to engage with firms about their performance in this area.

The Investment Association Long Term Reporting Guidance - In the Investment Association's guidance on various aspects of [Long Term Reporting](#) (May 2017), it states that Annual Reports should strive to provide a true long term understanding of the business and its drivers, its financial strength, and the quality of management and their decisions. Amongst other aspects focusing on return of capital, they seek better disclosures regarding how a company is enhancing the productivity of its workforce, and the steps taken by the Board to shape and influence culture. They recommend that companies should consider the appropriate mix of quantitative and qualitative disclosures to help explain its approach to human capital management, and how this creates value.



2: Risk Assessment and Controls

Supply chains are hugely complex, and it is important for companies to explain the journey that they are on to better understand the risks within the supply chain and to address emerging risks as well as any outstanding issues.

Modern Slavery Statements are an opportunity to demonstrate comprehensive risk awareness and to identify priorities for action. Boilerplate disclosure, greenwash reporting and “virtue signalling” statements are not enough. Investors can use this disclosure to identify evidence of steps taken, and plans for future action.

Investor Toolkit

Modern Slavery Statements

In the UK, The Modern Slavery Act 2015 makes human trafficking, exploitation, slavery, servitude and forced or compulsory labour an offence under UK law. Those found guilty of an offence face a range of penalties, including fines and imprisonment (with a top sentence of life behind bars).

Part 6 of the Modern Slavery Act 2015 relates to transparency in supply chains. Every commercial organisation which supplies goods or services, and has a total annual turnover of not less than £36 million must produce a statement of the steps the organisation has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains, or in any part of its own business.

Many companies to date have been reluctant to identify actual risks for fear of adverse publicity. However, investors see the benefit for businesses of thinking seriously about modern slavery in order to better understand their operations and supply chains, as well as to provide better safeguards for vulnerable workers.

Reporting under the Act should seek to foster a better understanding of the company, its reach and the steps it takes to minimise the risk of slavery occurring in its operations and supply chains. Companies that do not provide this information are more likely to face greater scrutiny from investors, NGOs, customers, business partners and public contracting authorities.

Investors would like to see risk assessments embedded in company processes, a demonstration of a responsible approach to the threats of Modern Slavery and greater levels of openness in reporting, extending the reach to general labour market compliance. The best examples of Modern Slavery Statements assessed during the apparel project include ASOS and Marks & Spencer.

For more information:

[Beyond Compliance: Effective Reporting under the Modern Slavery Act – A civil society guide for commercial organisations on the transparency in supply chains clause](#) .

This document has been prepared by CORE, with contributions from Amnesty International UK, Anti-Slavery International, CAFOD, Focus on Labour Exploitation (FLEX), Know the Chain, Quakers in Britain, ShareAction, Traidcraft and Unicef UK, and is supported by Dalit Freedom Network UK, ECPAT UK, Walk Free and Unseen.



Modern Slavery Statements: Best practice

As a minimum, a Modern Slavery statement should be compliant with the MSA 2015 requirements: publicly stated on the company's website with a link to the statement in a prominent place on the homepage, and approved by the board and signed by a director.

In addition, the Investor Forum believes it is best practice to include the following items:

Practice

- A description of the company structure, its supply chains, current modern slavery policies, and the training available to staff on slavery and human trafficking issues.
- The standards expected of suppliers, including transparency around the supplier's operations, and the monitoring, auditing and the independent verification of suppliers' practices.
- Engagement with stakeholders, including workers, NGOs and trade unions.

Risk

- A description of the risk assessment processes, including internal audit risk mapping and information used to understand local human rights contexts.
- Direct and indirect supply chains analysis, including raw materials, property portfolios, logistics, HR and IT, and retail operations as well as product manufacturing.
- Consideration of the risks that exist through other business relationships, for example with contractors, including labour providers, outsourced service providers and sub-contractors in construction.

Action

- Commitment to immediate action and a statement of longer-term priorities emerging from the risk assessment process.
- Approach to remediation, including specific actions taken to address instances of modern slavery.
- Collaborative initiatives in which the company participates and the objectives of participation.

Context

- Consideration of the wider human rights agenda, including action to promote worker protections, unionisation, individuals' access to broader civil rights, and community development.
- Key performance indicators used to assess the effectiveness of the company's approach to ensuring that there is no modern slavery in its own business and supply chain.



3: Commitment to Improvement

Action is often more effective if taken at an industry level, in collaboration with others. Leading companies are working together to raise standards and engage with policy makers at a global level.

Participation in initiatives may be viewed as evidence of a commitment to action to address the issues and meet standards, given the time and resources which will be required.

Investor Toolkit

Collaborative Initiatives

Below are some of the initiatives in which apparel companies have chosen to participate and which investors increasingly monitor:

- **UN Global Compact** is a strategic policy initiative for businesses that are committed to aligning with ten universally accepted principles for human rights, labour, environment and anti-corruption.
- **UN Sustainable Development Goals** - “8.7 – Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, and by 2025 end child labour in all its forms.”
- **Stronger Together** is a business led multi-stakeholder initiative in the UK aiming to reduce modern slavery, particularly hidden forced labour, labour trafficking and other third party exploitation of workers. It provides toolkits for tackling modern slavery in global supply chains, and a network to collaborate, develop and share best practice.
- **Fast Forward** is a collaborative programme to build better businesses and long term sustainability in the UK garment, home and general merchandise supply base. The approach applies to producer factories and non-trade warehouses / service providers.
- **Sedex** is the world’s largest collaborative platform for sharing responsible sourcing data on supply chains.
- **“SMETA”** is a Sedex audit procedure that is a compilation of good practice in ethical audit technique. It is designed to reduce duplication of effort in ethical trade auditing.
- **ACT (Action, Collaboration, Transformation)** is an initiative between international brands & retailers, manufacturers, and trade unions to address the issue of living wages in the textile and garment supply chain.
- **The Living Wage Foundation** is an independent movement of businesses, organisations and people that campaign for the simple idea that “a hard day’s work deserves a fair day’s pay”. They recognise the leadership of responsible employers who choose to go further and pay a real Living Wage based on the cost of living, not just the government minimum.
- **The Accord on Fire and Building Safety in Bangladesh** is an independent, legally binding agreement between brands and trade unions designed to work towards a safe and healthy Bangladeshi Ready-Made Garment Industry.
- **The Ethical Trading Initiative (ETI)** is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. All corporate members of ETI agree to adopt the ETI Base Code of labour practice, which is based on the standards of the International Labour Organisation (ILO).



4: Communication and Transparency

External surveys are beginning to emerge that critically evaluate the performance of leading brands and companies on a range of human rights and social issues. The organisations that create such surveys are keen to influence consumer behaviour, as a change in purchasing power is most likely to lead to a change in company behaviour. Expectations around transparency are increasing, and several companies are responding by disclosing all manufacturing locations on a regular basis and publishing policies and practice documents.

Investor Toolkit

External Benchmarking

The Investor Forum believes that companies should be proactive in reporting and communicating on their approach to these issues. This is an important opportunity to demonstrate leadership on issues of importance to customers, shareholders and broader stakeholders. It is also a practical step. Far better to be proactive in these areas than to be on the back foot defending an accusation of poor practice or low rankings in benchmarking exercises which can negatively impact brand value.

Companies and Investors each need to understand the validity and value of these approaches, which frequently apply value judgements in the assessment criteria and work on differing, often subjective, methodologies. For example, companies might not score well because they choose not to talk about what they do - and so score badly based on what is disclosed, without an understanding of what their actual practice is.

Some example of external reports:

- The [Corporate Human Rights Benchmark](#) assesses 98 of the largest publicly traded companies in the world on 100 human rights indicators. On the whole, companies perform better on policy commitments and governance, and performance drops off when it comes to acting on those risks, tracking responses and remediating harms.
- The [Fashion Revolution transparency index](#), which led the #whomademyclothes campaign, is a review of 100 of the biggest global fashion brands and retailers ranked according to how much they disclose about their social and environmental policies, practices and impact.
- [Know the Chain](#) ranks brands on transparency.
- [Follow the Thread](#) focuses on the need for supply chain transparency in the garment and foot wear industry.

Investors are increasingly monitoring initiatives such as these and incorporating insights into their assessment of company culture, sustainability and brand value.

Annex A: Quality of Work Assessment

The use of zero-hours contracts has been debated heavily within the media and political arenas. Against this background there is little doubt that the prevalence of zero-hours contracts does mean that many companies are potentially exposed to political and reputational risks.

A significant proportion of employees on insecure contracts with no guaranteed hours and associated benefits may risk generating a two-tier workforce; this in turn may have repercussions on the ability to generate a positive culture throughout an organisation. Any negative impact upon staff morale may potentially result in higher attrition rates and thus higher recruitment costs for employers.

The non-physical well-being of the workforce has received recent attention, with mental health conditions emerging as the most widespread cause of long-term absence from work. Whilst significant attention has been rightly devoted to mitigating physical health and safety risks, the recognition of these less visible risks to the well-being of the workforce may warrant further attention. For example, questions might be asked around night shift patterns, anti-bullying policies or mental health support.

Forced labour

Certain types of business practice may be regarded as forced labour. For example:

- workers paid cash in hand below National Minimum Wage;
- no contract, holidays, proper time recording;
- non/under-payment of PAYE and NI, non-payment of holidays, SSP, pension and other legal rights;
- irregular payment or withholding of pay;
- unpaid trial / training periods;
- financial indebtedness and penalties, or wages “linked” to travel and accommodation costs;
- coercion / threats to workers;
- illegal workers;
- ID retention;
- audit evasion / deception.

Swedish Derogation

Under the EU rules, temporary workers are entitled to the same pay and conditions as permanent staff after 12 weeks of continuous employment. But the ‘Swedish derogation’ clause exempts an employment agency from having to pay the worker the same rate of pay, as long as the agency directly employs the individual and guarantees to pay them for at least four weeks during the times they cannot find them work. Agency workers can then be contracted out to other employers. Alternatively, they may be offered jobs at short notice, which, if they fail to turn up for, can be used as evidence that they were not available for the work that was found for them, thereby exempting the agency from payment.

The Taylor Review¹ recommends that Swedish derogation be abolished.

¹ ‘Good Work: the Taylor review of modern working practices,’ Department for Business, Energy & Industrial Strategy, 11 July 2017.



Quality of Work Assessment

The “QuInnE² indicators of quality of work” table was published in the Taylor Review 2017.

Discussions on such indicators with company management could give insight into the type of employer that the company aspires to be.

QuInnE indicators of quality work	
Wages	Pay level relative to national minimum pay and average for required qualifications Pay variability
Employment Quality	Permanent/Temporary Status Job Security Internal Progression Opportunities Predictability of Weekly Hours (Overtime – Zero Hours) Presence/Absence Involuntary Long Hour Work (40 +) Presence/Absence Involuntary Part-Time Work (<30)
Education & Training	Learning Opportunities on the Job Training Incidence Training Quality Opportunities for General vs Specific Skill Acquisition (Transferability)
Working Conditions	Individual Task Discretion/ Autonomy Semi-Autonomous Teamwork Job Variety Work Intensity Health and Safety (Physical and Psychosocial) Supervisory Social Support Peer Group Social Support
Work Life Balance	Work Time Scheduling (Unsocial Hours) Hours of Work (Duration) Working Time Flexibility – Personal Control of Work Hours Working Time Flexibility – Provisions for Time Off for Personal Needs
Consultative Participation & Collective Representation	Direct Participation in Organisational Decisions Consultative Committees-Works Councils Union Presence Union Decision-Making Involvement

² QuInnE is an interdisciplinary project investigating how job quality and innovation mutually impact each other, and the effects this has on job creation and the quality of these jobs. The project brings together a multidisciplinary team of experts from nine partner institutions across seven European countries. It is funded by the Horizon 2020 Framework Programme of the European Commission.



Contact Us

The Investor Forum
183 Euston Road
London NW1 2BE

Telephone +44 207 611 2223
Email info@investorforum.org.uk
www.investorforum.org.uk