



WORKING PRACTICE IN THE APPAREL SECTOR – ONE YEAR ON

Reflections and update

May 2018

In April 2017, the Investor Forum initiated a S360 project with the participation of 21 members to examine working practices within the Apparel Sector.

Our broad conclusion was that the vast majority of listed companies in the sector were taking robust action to address the risks they had identified, and were on a journey of improvement. Some outliers were identified, and investor views were shared on areas for improvement following distribution centre visits.

The issues we investigated continue to attract significant attention, most notably a recent FT investigation into "[Dark factories: labour exploitation in Britain's garment industry](#)" – and are still very much a concern for many shareholders.

We have now started phase two of the project, focusing on the food retail sector. Early findings suggest the common theme of labour exploitation risks runs through the more complex common supply chain, and that these are best addressed by the industry on a collective basis.

The Investor Forum believe that this work demonstrates that shareholders do take stakeholder perspectives into account, and it provides evidence to policy makers that broader social issues are incorporated into investment analysis.

This note reflects on developments over the last 12 months, and provides updated links to the key reports and material that we considered in our Investor Toolkit.

Executive summary

- Many stakeholder collaborative initiatives have developed to aid business in the fight against modern slavery. Government focus continues, with various reviews and recommendations being made in the last year, both in the context of the modern workforce and the gig economy and through strengthening existing enforcement mechanisms.
- Transparency and disclosure from companies on their workforce is improving, either through Modern Slavery Statements, sustainability reports or mandated 'Gender Pay Reports', all of which can give insight into the treatment of minimum wage and agency workers within the business. Investor-backed groups such as the Workforce Disclosure Initiative have also published initial results.
- Certain brands and companies are establishing a leadership position through their actions to enhance responsible sourcing of both labour and goods. Whilst this attracts no obvious near-term multiple enhancement, it should give confidence in the longer-term sustainability of the business model, and reflects well on the company's stakeholder management. In our group meetings with companies, we have heard how investor questions can nudge



improvement in practices, and empower the internal teams responsible for delivering these programmes. This remains an important stewardship opportunity.

- An area of concern often raised when speaking with companies is the proliferation of benchmarks and data requests, to the extent that they are 'survey fatigued' and questioning the merits of disclosing beyond their own sustainability reports. We believe it will be important to address this issue, with investors providing guidance on the metrics they find most material in their assessment of franchise value, and those that might have most direct impact on a company's cost of capital. We intend to work with the BRC to explore this issue further.

1. Tackling the issue

The issues of human trafficking, modern slavery, labour exploitation, and human rights abuses that we discussed with the Institute of Human Rights and Business in April 2017 remain as relevant as ever, and are a global concern.

Many stakeholder collaborative initiatives have developed to aid business in the fight against modern slavery. The United Nations Global Compact, the Global Business Coalition Against Trafficking, and the RESPECT Initiative have created an Interactive Map for Business of Anti-Human Trafficking Organisations to address the need for a unified resource of information on stakeholders, and to improve coordination. The website - www.modernslaverymap.org - maps the initiatives and charities according to sectors and geographical area, and is a useful source of expert content.

Government focus also remains, with various reviews and recommendations being made in the last year, both in the context of the modern workforce and the gig economy and through strengthening existing enforcement mechanisms. Three areas that we have been following are discussed below.

1.1 Labour Market Enforcement Report

In October 2017 we hosted a meeting with investors and Professor Sir David Metcalf, Director of Labour Market Enforcement, as part of his consultation in forming his strategy. His final report was published in May 2018, and can be found [here](#). It provides comprehensive oversight of the labour market landscape and makes a series of recommendations to improve the system. He puts forward a number of recommendations to improve state-led enforcement of employment rights including measures to be taken by the three labour market enforcement bodies.

Of most relevance to the discussion we had on the day, is the recommendation in section 4.1 (pg 83) on Accountability and Leverage through the supply chain:

"23. To help ensure compliance throughout supply chains, joint responsibility measures should be introduced where the brand name (at the top of the chain) bears joint responsibility for any non-compliance found further down its own supply chain. Where non-compliance is found, follow-up action by enforcement agencies in conjunction with the brand name and supplier would be undertaken in private to provide an opportunity to correct the infringements within a given timeframe. Failure to correct could result in public naming of both the brand name and supplier.

24. Provisions should also be made to enable the temporary embargo of 'hot goods' to disrupt supply chain activity where non-compliance is found."



Rachel Reeves, Chair of the Business, Energy and Industrial Strategy Committee, called on the Government to “urgently implement Sir David’s recommendations, fully resource labour enforcement bodies, and bring forward legislation to enact the recommendations of the Taylor Review and of the BEIS and Work and Pensions Committees.”

We expect further legislative developments in due course.

1.2 Gangmaster & Labour Abuse Authority (GLAA)

At the June 2017 meeting with the late Paul Broadbent, then CEO of the GLAA, he encouraged investors to engage with companies on the issues of labour exploitation in their supply chain. He felt that, 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 car washes and nail bars.

In May 2018, the GLAA published a report “The Nature and Scale of Labour Exploitation across all Sectors within the United Kingdom”, which can be found [here](#).

The report identifies the key risk sectors, the most relevant of which for listed companies and their supply chain sector are: agriculture, food service, catering and hotels, warehouse and distribution, food processing, manufacturing (particularly the Leicester textile factories), cleaning and construction.

1.3 Potential amendments to the Modern Slavery Act

The Modern Slavery Act 2015 was a landmark legislation in the UK, which is now in the process of being copied in Australia and other jurisdictions.

A representative from the Investor Forum has been part of an advisory group set up by Baroness Young of Hornsey to support her campaign, “Let’s Make It Work: The Alliance for Transparency in Supply Chains Reporting”. As part of the campaign, Baroness Young is seeking to strengthen legislation to prevent modern slavery and keep momentum going around transparency in supply chain reporting, through her “[Modern Slavery \(Transparency in Supply Chains\) Bill](#)”, the second reading of which is yet to be scheduled.

2. Toolkit update

The sections below relates to content in the Investor Forum’s “[Investor Toolkit: Working Practices in the Apparel Sector](#)”

2.1 Modern Slavery Statements

The UK Modern Slavery Act requires all firms with annual turnover above £36 million to publish a Slavery & Human Trafficking Statement each year, outlining their actions to eradicate slavery in supply chains. The deadline for companies reporting under the Act was 30 September 2017. Company statements can be viewed on the [Modern Slavery Registry](#), which is powered by the Business & Human Rights Resource Centre (“BHRC”), as there is still no central government register.

In December 2017 BHRC published a report - [First Year of FTSE 100 Reports Under the UK Modern Slavery Act: Towards Elimination?](#) - assessing the statements of the FTSE 100 companies and the actions they reported. Findings showed there is a cluster of leading companies taking robust



action, such as Marks & Spencer, Sainsbury (J) and Unilever, while the majority “show a lacklustre response to the Act at best”.

In September 2017 CORE, a leading UK civil society coalition on corporate accountability, looked at how 50 top companies are reporting on known slavery and trafficking risks in their operations and supply chains. The report - [Risk Averse: Company Reporting on raw material and sector-specific risks under the Transparency in Supply Chains clause in the UK Modern Slavery Act 2015](#) - examines statements from 25 businesses who source raw materials and commodities associated with a heightened risk of modern slavery – cocoa from West Africa, mined gold, mica from India, palm oil from Indonesia and tea from Assam – and 25 operating in sectors known to be at heightened risk of labour rights abuses: apparel and footwear, construction, hospitality, Premier League football and service outsourcing private firms.

2.2 Workforce Disclosure Initiative

In the Toolkit that the Forum published in July 2017, we noted how narrative reporting can be used to link a company’s approach to its workforce with 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, helping to contextualise the data.

We encouraged companies to go beyond the minimum reporting requirements in the Strategic Report given investor and broader stakeholder interest. As part of this, we highlighted how investors could support the Workforce Disclosure Initiative (WDI) to get more comprehensive and comparable data on company workforces.

The CEO of ShareAction presented to a group of Investor Forum members in April 2018 to give a high-level summary of the findings of the pilot WDI report. 95 investors from 11 countries, representing over \$10trn in asset under management, had become signatories. The report was launched on 1st May and can be found [here](#).

2.3 External benchmarking

The Toolkit also linked to a number of external reports that were relevant to the Apparel sector. Many of these have published updated versions, and these are linked below:

- The [Corporate Human Rights Benchmark](#), in April 2018 published its assessment of the pilot year and updates on its future methodology, along with reflections from the companies that engaged with the benchmarking process.
- The [Fashion Revolution transparency index](#), April 2018, 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. The index saw brands and retailers increase their level of transparency by an average of ~5% from their 2017 scores, suggesting that inclusion in the index has influenced them to increase disclosure. Of relevance to our previous discussions, ASOS has improved 18%, moving them up a level, in line with the ambition they stated in our meeting with them in April 2017. In the bottom tier is Sports Direct and Sainsbury’s. M&S remain in the top tier.
- [Know the Chain](#) ranks brands on transparency. In 2018 they will benchmark over 120 companies from the Information & Communications Technology, Food & Beverage, and Apparel & Footwear sectors using an updated methodology to evaluate what companies are doing to address forced labor in their supply chains. The new methodology includes



feedback from a diverse set of stakeholders including previously benchmarked companies, the investor community, and civil society organizations.

An area of concern often raised when speaking with companies is the proliferation of benchmarks and data requests, to the extent that they are 'survey fatigued' and questioning the merits of disclosing beyond their own sustainability reports. We believe it will be important to resolve this, with investors providing guidance on the metrics they find most material in their assessment of franchise value, and that might have the most direct impact on a company's cost of capital.

2.4 Company engagement

The British Retail Consortium (BRC), the trade association for all UK retailers, has invited the Investor Forum in to talk to its members three times as their working groups seek to understand investor stakeholder views and prioritise focus areas.

The BRC presented its 'Better Retail, Better World' initiative at the Forum's member meeting in April 2018, and asked whether we would endorse the programme as an incentive for others to join and drive meaningful positive change on the industry's impact on 5 targeted Sustainable Development Goals areas.

We believe that the investor engagement via the Investor Forum with the BRC and its members is a positive development, and can help resolve concerns such as the 'survey fatigue' point raised in the section above.