

Integrating ethical trade principles into core business practices

An introductory toolkit



Introduction

This introductory guide has been developed by the Ethical Trading Initiative to support internal teams to begin the process of integrating ethical trade principles into their business practices. The purpose of this guide is to capture and share experiences and provide practical tools and guidance to overcome key challenges and barriers that can be faced as a business develops its ethical trade approach. More in-depth guidance and training on due diligence, purchasing practices and other ethical trading principles is available from ETI. Check our [website](#) for details.

Why use this guide?

Whilst there is an unquestionable moral case for developing an ethical trade approach to business practices, there is also a strong economic case. By identifying and addressing poor labour conditions and human rights violations within its supply chains, a business helps its suppliers avoid labour unrest and instability, reduces training and recruitment costs and ensures a more stable and therefore more productive workforce. The business will also benefit from an improved reputation among customers, investors and suppliers, with increased evidence of improved business performance.

1. Minimise reputation risk to business and brand reputation

Increasing transparency and the rising importance of social media mean that tragedies such as the collapse of Rana Plaza in Dhaka, Bangladesh, which killed more than a thousand people, now represent a critical risk to a business's reputation. On the other hand, transparency can have a positive reputational impact if ethical trading principles are integrated into core business practices.

2. Reduce disruption to supply chains

Poor and unsafe working conditions can result in factory closures, which in turn impact upon an organisation's ability to ensure continued supply of products and services. A report by the World Economic Forum found significant supply chain disruption cut the share price of affected companies by 7 per cent on average¹. Companies who have been through such a crisis report that the cost of remediation outweighs the cost of getting the relations right in the first place.

3. Improve efficiencies in business operations

As well as complying with international labour rights standards, improving labour practices within supply chains can increase productivity, reduce absenteeism and tighten quality control. What is good for workers is also good for business; protecting the rights of workers at the furthest end of the supply chain is integral to improving efficiencies. For example, one international clothing brand has reported that by working with its suppliers to improve productivity and efficiency, streamline operations and up-skill workers, there has been a 26 per cent reduction in material waste, 12 per cent increase in on-time deliveries, 6 per cent more orders on budget and an 80 per cent reduction in quality complaints².

4. Improve employee engagement and motivation

There is growing evidence that ethical issues are an important factor in younger people's decision-making processes. An organisation's approach to corporate responsibility is becoming a growing factor in influencing recruitment and retention and motivation/productivity of staff. For example,

¹ http://www3.weforum.org/docs/WEF_RRN_MO_BuildingResilienceSupplyChains_ExecutiveSummary_2013.pdf

² <http://www.bitc.org.uk/our-resources/case-studies/matrix-apa-%E2%80%93-placing-responsibility-heart-supply-chain-deliver-effectual#sthash.T7m7Oliz.dpuf>

a 2011 study found that 53 per cent of respondents view their company's performance on sustainability as 'at least somewhat important' to attracting and retaining employees³.

5. Protect and increase sales

Finally, and perhaps most importantly, consumers care where and how their clothes are made. For example, in 2015, UK sales of ethical products and services sales grew by 8 per cent, with the UK ethical market now worth £35bn⁴, this is in relation to consumers spending €59 billion as a total of UK household consumption on fashion and footwear in 2015⁵.

How this guide is organised?

The guide has been designed to introduce some of the key steps involved in integrating ethical trade principles. For each stage, it provides practitioner perspectives, real-life examples and tools to support internal teams.

Section 1 begins by looking at the business case for integrating ethical trade principles, from the perspectives of the organisation, the buyer and the supplier. It identifies how ethical trade can help deliver on core commercial objectives, and the legislative framework and voluntary guidelines, which companies are expected to implement relating to working conditions and human rights within their supply chains.

Section 2 focuses on how ethical trade teams can build internal buy-in. What conversations need to be had? Who are the internal stakeholders to engage? How have others gained buy-in within their organisation? And how can the benefits and the 'business case' for ethical trade be tailored and clearly explained, so that others can understand 'why it matters to me and my role'?

Section 3 addresses the challenge of engaging procurement teams and aligning ethical trade principles with existing (often conflicting) commercial decision-making practices, including those focused on cost, quality and timelines. A key aspect discussed is building shared understanding of how existing practices and commercial decisions can impact negatively on a supplier's ability to comply with codes of practice and ultimately can lead to poor labour conditions, unsafe working conditions and human right violations.

Section 4 examines how to identify risks relating to poor labour conditions, unsafe working conditions, gender discrimination and human right violations. It includes tools to prioritise risk 'hot-spots' based on sourcing location and product type. It also reviews how internal teams can build a deeper understanding of the complex root causes shaping these key external business risks.

Section 5 discusses the importance of monitoring and measuring progress, to ensure continued internal support and so that ethical trade principles becomes linked to the way in which the business thinks about progress and performance.

Section 6 examines the various ways in which an organisation can monitor and verify the performance of their suppliers, in particular those which go beyond traditional 'tick box' compliance audits. This ranges from staff visiting factories and independent bodies and worker representatives conducting audits through to participative multi-stakeholder approaches, which empower suppliers and shift

³ http://www.mckinsey.com/insights/sustainability/how_companies_manage_sustainability_mckinsey_global_survey_results

⁴ www.ethicalconsumer.org/researchhub/ukethicalmarket.aspx

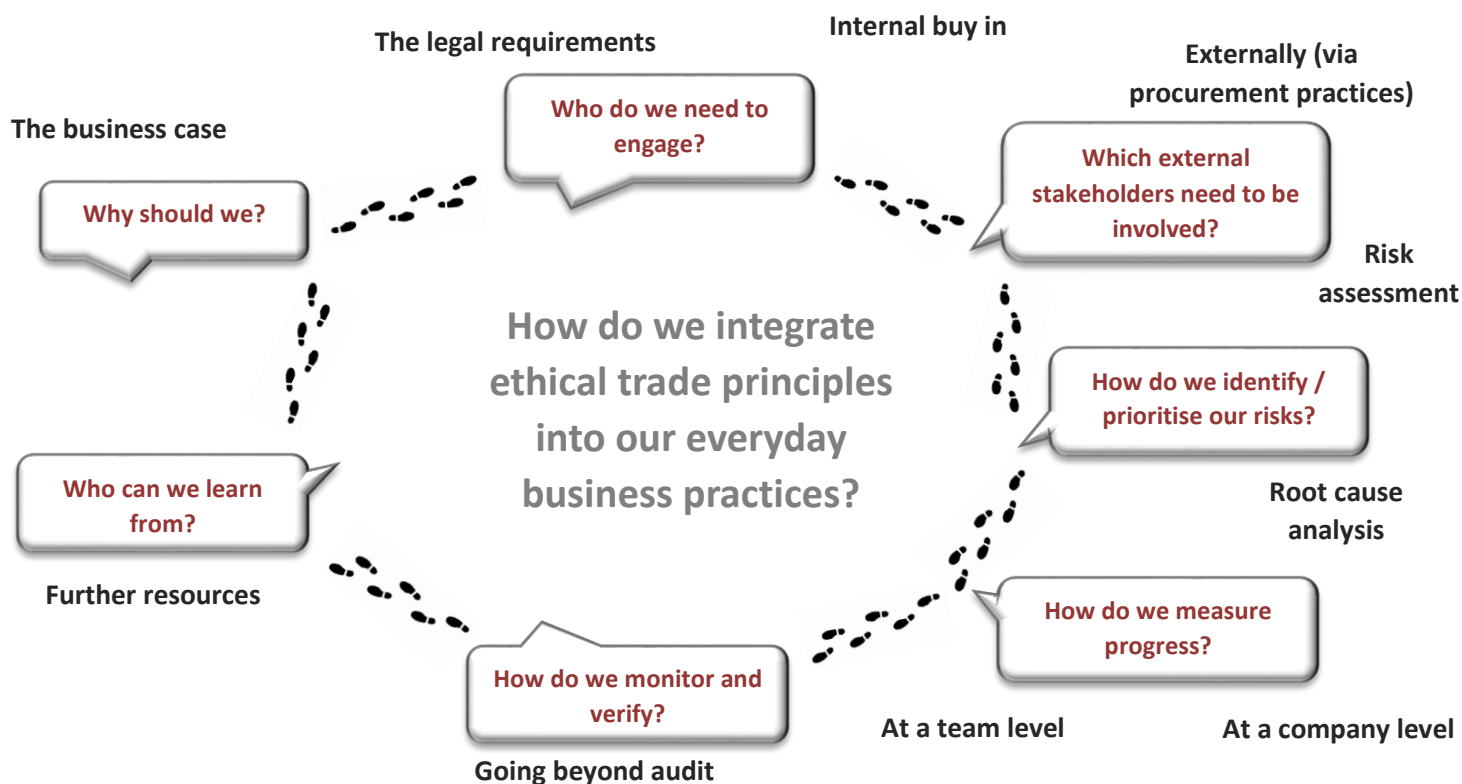
⁵ <https://www.fashionunited.co.uk/facts-and-figures-in-the-uk-fashion-industry>

from pass/fail compliance to collaborative assessments and comprehensive continuous improvement programs.

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1. Why should we integrate ethical trading principles into our business?

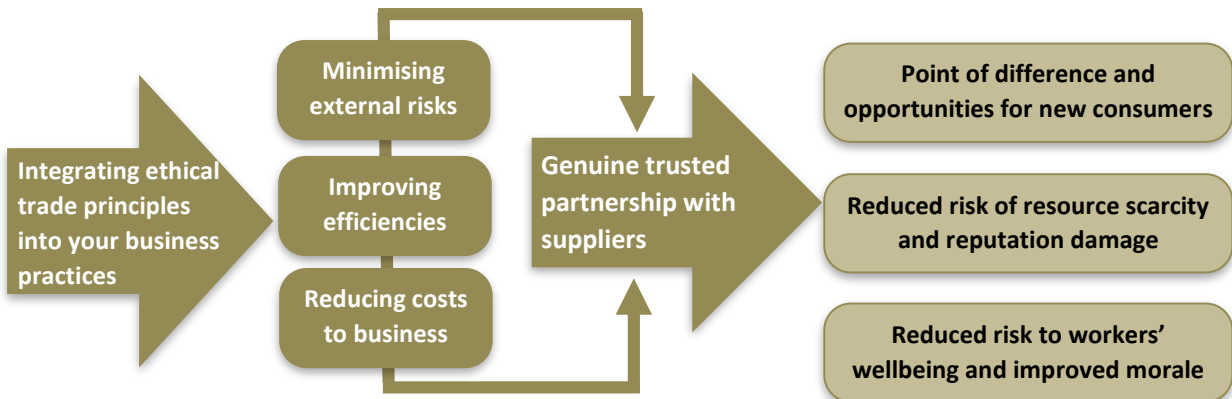
The first section of this toolkit discusses the business case for integrating ethical trade principles into core business practices, including:

1. How ethical trade can contribute to core commercial objectives, such as protecting and enhancing an organisation's reputation, meeting consumer expectations, improving efficiency and encouraging employee motivation.
2. The legislative framework and voluntary guidelines addressing working conditions and human rights across supply chains.
3. The benefits to workers and the results which can be seen through the supply chain from better integration of ethical trade principles.

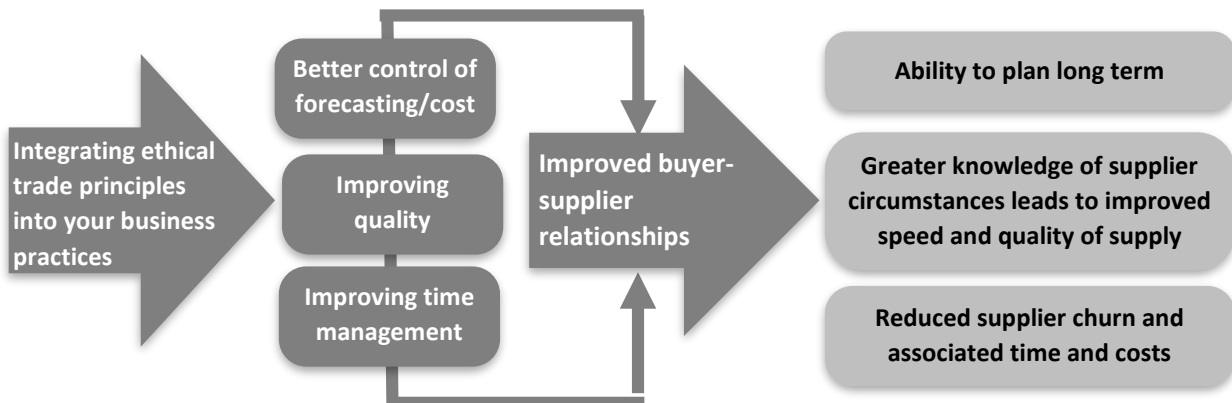
The business case for ethical trade

As well as the moral case for ensuring all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity, there is a strong business case for the implementation of ethical trade principles into your business.

The benefits for your business



The benefits for your buyers



The benefits for your suppliers



Above all, integrating ethical trading principles delivers **benefits to workers** across an organisation's supply chains. For instance, investing in health and safety training reduces absenteeism and increases employee motivation. Investing in women workers to keep them safe from sexual harassment and discrimination, ensures that they receive equal pay for work of equal value, and have equal access to training and advancement opportunities that will ensure a more stable, diverse and therefore more productive workforce. Investing in women workers also benefits the wider community providing greater stability for local business.

Legal and code of conduct responsibilities

Central to the business case for embedding ethical trade is the growing legislative framework and voluntary guidelines for human rights and labour conditions in supply chains, for instance:

UK Modern Slavery Act (2015)⁶: A legally binding framework which requires every organisation carrying out business in the UK with a total annual turnover of £36m or more to produce a slavery and human trafficking statement each financial year. This must be publicly reported and placed in a prominent place on the company's website and link on the homepage. Guidance on the 'transparency in supply chains' clause, in relation to the Modern Slavery Act can be found [here](#).

EU Directive on non-financial reporting⁷: Requires disclosure of non-financial and diversity information by companies in the EU with more than 500 employees, including:

- 1) Environmental, social and employee-related, human rights, anti-corruption and bribery matters.
- 2) Business model, outcomes and risks of the above topics, and diversity policy.

ILO Declaration on Fundamental Principles and Rights at Work⁸: Adopted in 1998, the Declaration commits Member States to respect and promote all ILO conventions, such as:

- 1) Freedom of association and the effective recognition of the right to collective bargaining.
- 2) The elimination of all forms of forced or compulsory labour.
- 3) The effective abolition of child labour.
- 4) The elimination of discrimination in respect of employment and occupation.

United Nations Guiding Principles on Human Rights (the 'Ruggie Principles')⁹: Global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. Endorsed by the UN Human Rights Council in June 2011. Focuses on:

- 1) The state's duty to protect human rights.
- 2) Corporations' responsibility to respect human rights.
- 3) Access to remedy for victims of business-related abuses.

The OECD Guidelines for Multinational Enterprises¹⁰: The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting in a global context.

The Ethical Trading Initiative (ETI) Base Code¹¹: An internationally recognised set of labour standards based on International Labour Organisation conventions, developed to drive improvements in working conditions around the world. The code applies to all ETI members and their supply chains.

Other legislation and frameworks include:

- The Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), international treaty adopted in 1979 by the United Nations General Assembly.
- [France] National Plan of Action against Trafficking in Human Beings 2014-2016.
- [Switzerland] National Action Plan to Fight Human Trafficking - for the period 2012-2014.
- [Germany] Human trafficking offences adapted to the broad definition of the Palermo Protocol.

⁶ <http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

⁷ http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm

⁸ <http://www.ilo.org/declaration/lang--en/index.htm>

⁹ <http://business-humanrights.org/en/un-guiding-principles>

¹⁰ <http://www.oecd.org/daf/inv/mne/48004323.pdf>

¹¹ <http://www.ethicaltrade.org/eti-base-code>

2. Who do we need to engage to make this integration happen?

The second section of the toolkit discusses how ethical trade teams can build support and gain buy-in from their colleagues across the business. What conversations need to be had? Who are the internal stakeholders that you must engage? As each of these internal audiences have different business priorities and performance objectives, the approach and 'business case' needs to be tailored so that it clearly articulates 'why ethical trade matters to them and their role'.

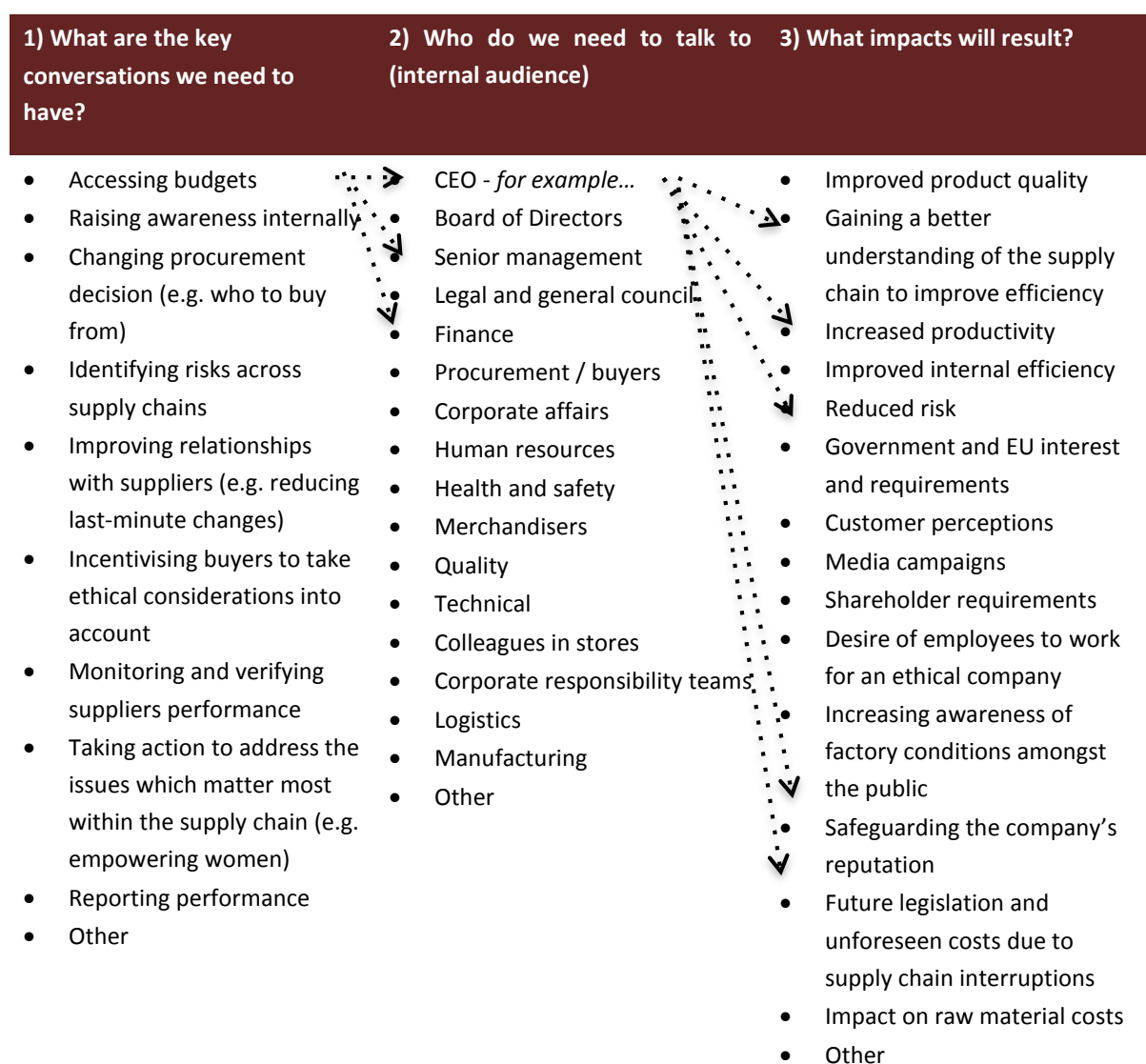
Building an internal engagement strategy



TOOL: Mapping internal stakeholders

To embed ethical trade principles across your business you will need to secure the support of a number of different internal stakeholders. An effective exercise is described below: use the tool to map out, firstly the conversations you need to have, then who you need to engage for these conversations and finally what impact will result from these engagements.

Once you have identified the motivation for each audience, consider also how the stakeholder likes information to be presented. Some may respond best to statistics, figures and charts or newspaper cuttings of media exposés. Others may be persuaded by examples of what other companies in your industry are doing (and the business benefits they gained). *A critical internal engagement will also be with the sourcing and commercial team - see the following section, page 12, for further details.*



WHAT HAS WORKED FOR OTHERS?

The following selection of perspectives and examples were provided via interviews with practitioners at different enterprises within international clothing supply chains, from trade unions and NGOs. The types and sizes of the organisations are included to illustrate how this can apply to different organisations. In particular, these examples focus on some of the key steps and decisions to take when building internal buy-in.

Begin with the recruitment and induction process

How can you harness the recruitment process to build internal buy-in from the beginning? For instance, could you:

- Include questions relating to ethical trade in the recruitment process for all new employees?
- Provide practical examples of ethical trade in the induction courses?
- Ask new employees to become ethical trade champions?
- Discuss how the company can incentivise buyers (and their job descriptions) to address ethical trade issues, for example in job descriptions, performance appraisals?

Get senior level commitment – *find out*

- What are the business benefits for each of your senior management teams and their functions?
- How do each of your senior managers like information to be presented?
- What are other companies in your industry doing, and what have their CEO committed to?
- What are the current or likely media/NGO campaigns directed at your industry?
- What are the financial and human resources required for what is required?

Practitioner Perspectives

It all starts with 'who' we employ. We have a 'values-based' recruitment process. We are looking for people who want to work in a culture like this, for people who share our values and want to help the company move forward. Once they have joined, then it is our job to help them understand what it means to work in a culture like this. - Sustainability Executive, Global Retailer

All consumer companies need to cut costs. This places a huge focus on budgets. It is only because we have made such public commitments that I have any sort of justification. Public commitments give you leverage and no leverage equals no budget. - Global Sustainability Sourcing Manager, Pharmaceutical Company

Raise awareness in different departments

- Arrange one-to-one or departmental meetings.
- Map out your organisation's existing internal communication methods Who typically reads them, and why? What works for getting attention?
- Conduct a survey to understand if your colleagues know your organisation has a Code of Conduct, and that they understand it. Do they feel sufficiently informed to be able to challenge other people's behaviour?
- Establish Ethical Trade champions within each key function.
- Set up a cross-department working group on ethical trade.
- Arrange for colleagues from different departments to visit factories and see working conditions on the ground.

Training sessions are key – *things to consider*

- Draw from your own experience to bring the issues alive.
- Work with experts who can provide interactive training modules, such as [ETI training](#).
- Use public research to demonstrate the impact of purchasing practices on labour standards.
- Focus on the business case and the relevance and benefits of this approach for your business.
- Talk about other companies' approaches, what do they do and why.
- Use audit documents, photos of non-compliance and pictures of 'good vs. bad'.
- Invite other company representatives, trade unions, NGOs or researchers to speak.
- Tailor the session to the audience given their prior knowledge, time available, and detail needed.
- Make it relevant – in terms of how it relates to what they do in their department and/or role.

Practitioner Perspectives

*One thing we have found is to ask people from different teams to attend conferences with you (as you never know when they are going to have that light-bulb moment, be inspired or meet an interesting new colleague). People always say to me 'you don't send the usual suspect to the conferences'. I would recommend doing an internal stakeholder mapping, include in it a list of people you want to engage and then invite them along to different conferences. - **Director of Ethical Trade, Clothing Designer***

*Pictures certainly help. Buyers spend a lot of time in offices, on the phone. Show a picture of their supplier's factories, including a chemical spill, no lighting, no fire extinguishers. An unambiguous image sends a very strong message. - **Global Sustainability Director, Food Manufacturer***

*We ran a workshop for buyers, in it we created production lines, and gave them paper and stationery, and they had to make t-shirts in time for a shipment. Then halfway through, we announced the buyer has decided they want V-Necks, not round-necks. It was a clear way to show how our decisions impact workers. - **CSR Manager, Fashion Retailer***

*In many companies in the fashion industry, buyers are often only with an organisation for a short period of time. They move around in the company / between companies – to keep them on their toes and to maximise the time/pressure on price...Therefore, one of the things you have to do is to raise awareness continually to ensure everyone knows why ethical trade matters. - **Expert advisor - NGO***

3. How do I engage with our procurement teams?

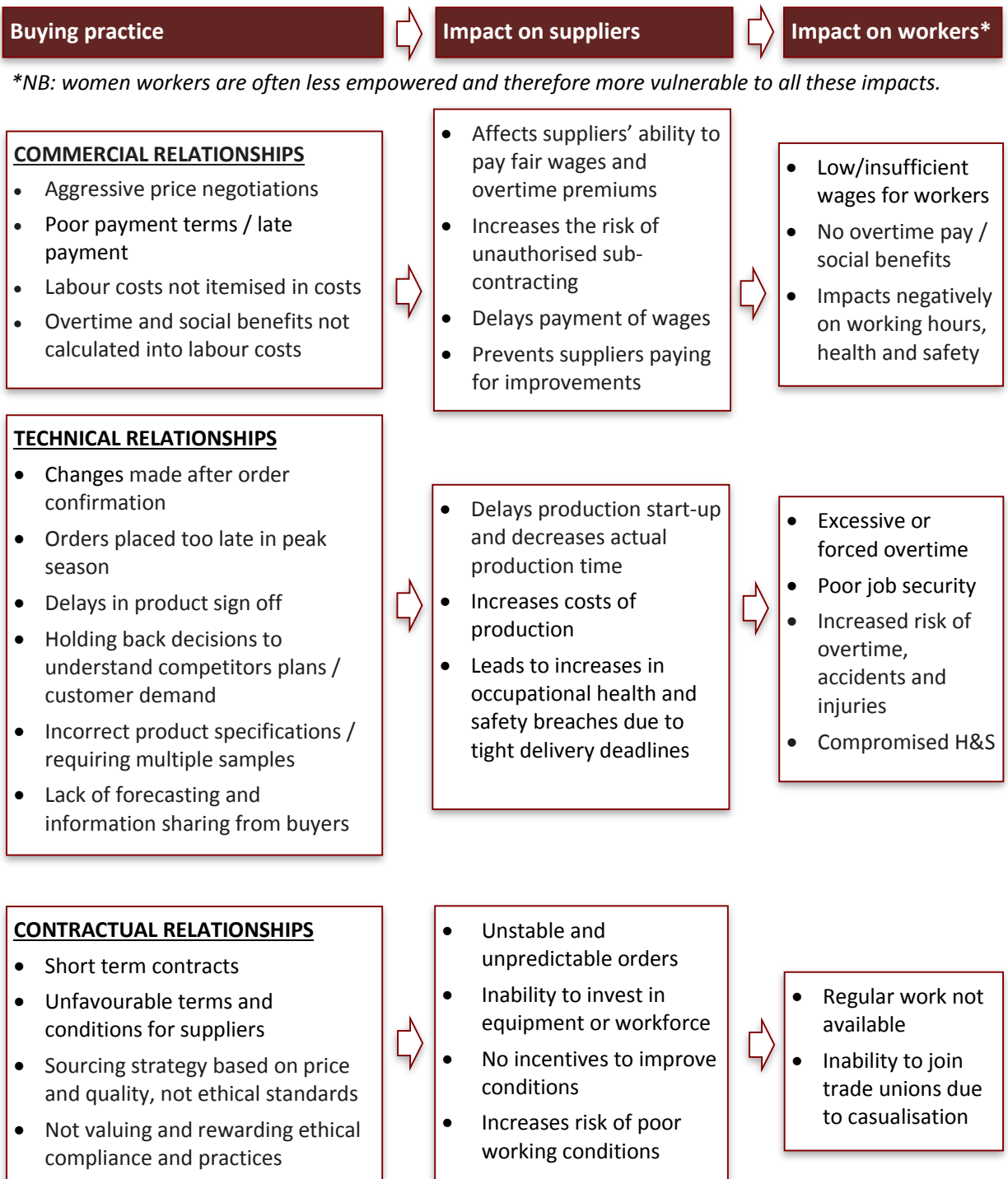
The third section of this toolkit focuses on the challenge of engaging procurements teams and aligning ethical trade principles with existing, often conflicting, commercial decision-making practices including those focused on cost, quality and timeliness. Here a critical activity is to build shared understanding of how existing practices and commercial decisions can impact negatively on a suppliers' ability to comply with codes of practice and ultimately lead to poor labour conditions, unsafe working conditions and human right violations. The section also discusses how other organisations have begun to address these complex challenges.



TOOL: How do buying practices impact on suppliers and workers?

A key challenge when integrating ethical trade into an organisation is reconciling these objectives with existing commercial practices. This is particularly relevant to purchasing decisions/processes. The following tool can be used with colleagues to map out how different buying decisions and practices can place pressure on suppliers and ultimately impact negatively upon worker conditions.¹²

ETI, ETI Norway (IEH) and ETI Denmark (DIEH) will be publishing comprehensive and updated guidance on purchasing practices and sourcing strategies in 2016. Check the [resources area](#) of the ETI website for further details.



¹² Adapted from ETI 2010; IEH 2012

WHAT HAS WORKED FOR OTHERS?

The following selection of perspectives and examples were provided via interviews with practitioners at different enterprises within international clothing supply chains, from trade unions and NGOs. These examples focus specifically on the challenges of ensuring costing models reflect the 'true' production cost and addressing procurement practices which place pressure placed on suppliers and workers.

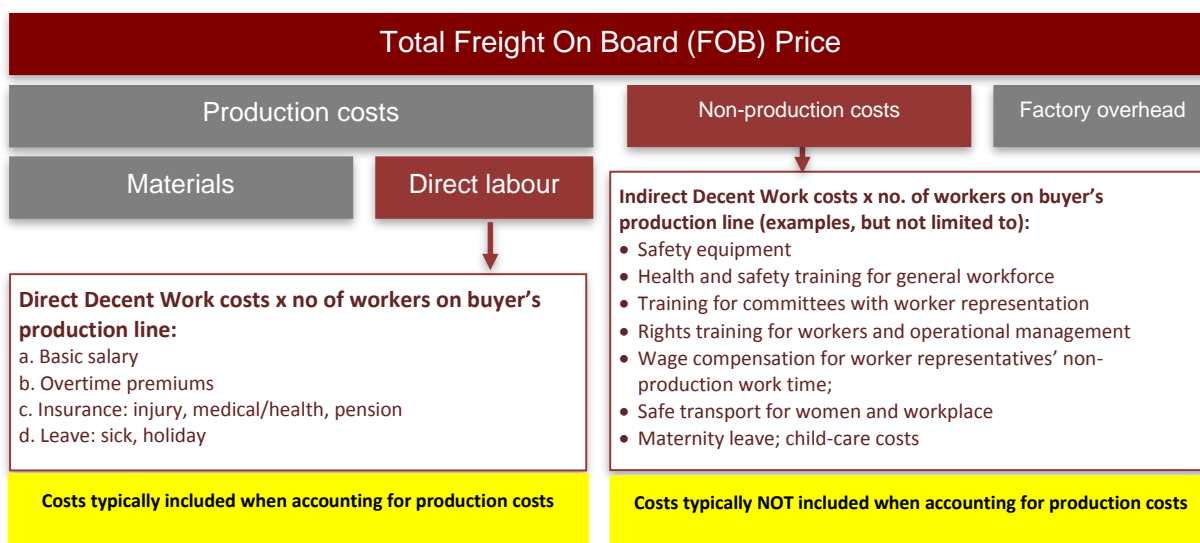
Practitioner Perspectives

*One of our key challenges is that the demands we put upon the factories often contradict the ethical compliance requirements that are expected... In addition to raising awareness internally as to the impact that their buying decisions have on the workers, we also have set internal KPIs to help our teams to consider ethical trade as part of the critical path process. We have also created trackers and templates for factories to gather, monitor and analyse data such as: planned vs. actual production targets, worker skills and quality performance. - **Head of Social and Ethical Sourcing, Clothing Sourcing Company***

*The biggest challenge is a company's expectation of wholesale deflation. Most companies trading models are based on paying less next year than they did the previous year, indeed most buyers have a job description based on this notion. Therefore, when the buyer is negotiating with suppliers they have to achieve improvement in margins to get their bonus. This is the single biggest battle we have. It is in the job description. Their sole function is to drive down cost. **Expert advisor, NGO***

Full costing and accounting models

A key factor contributing to poor ethical trade conditions is that the often price paid by a company for a product does not reflect the true cost of making the item, which in turn has an impact on overtime, wages and other working practices. To mitigate the lack of itemised labour costing, ETI Norway has proposed a 'Decent Work Accounting' model¹³ for budgeting and pricing products, which captures the true cost of working conditions, and attempts to itemise and cover decent work costs for each individual order.



¹³ 'Supplier Speak Up – How Responsible Purchasing Practices Can Improve Working Conditions in Global Supply Chains', IEH 2014

Improving forecasting, production and lead times

Retailers and brands rely on forecasting to predict how much of the product will be sold and thus how much need to ordered from suppliers. However, forecasting is notoriously difficult and is never 100 per cent accurate, depending as it does on the weather, consumer trends and many other externalities. This unpredictability often translates into pressure on suppliers to be flexible and responsive, delivering small quantities of product more frequently and being able to respond to order changes at very short notice. This often translates into significant pressures on workers and labour practices. For instance, in order to be able to respond to last minute changes suppliers may keep their workforce on flexible terms, impose mandatory overtime and use casual labour, all of which contravene the ETI base code and ILO conventions.

There are various activities which can help reduce the impact on suppliers associated with forecasting, such as:

- **Improving forecast models:** reviewing price trends and fashions, liaising with media to anticipate the impact from celebrity endorsements or product placement.
- **Using IT tools to monitor supplier capacity:** this could include creating data management systems that identify supplier downtimes occur and what their production capabilities are.
- **Managing production outside supplier peak periods:** placing orders outside peak periods – this can enable buyers to benefit from lower prices and also help maintain continuous employment for suppliers' workers.

Practitioner Perspectives and Examples

*We have developed a programme to enable our factories to build better systems and practices to achieve greater accuracy, by improving stock management recording systems and setting up tools to better understand production costs. - **Fashion Retailer***

*We work with our suppliers to book production for a certain number of garments in a certain month, we don't necessarily know exactly what that garment will be, but we know we will need that number. That way they can book workers and have the capacity in advance before we confirm the final design. - **Global Retailer***

*Another area that is often invisible is payment terms. Companies are extending their payment terms to 3 or even 6 months. Suppliers then set these conditions for their sub-suppliers, which goes on down to the bottom of that chain, for example, all the way to home-workers in India, who get paid 6 months after they have done the piece of work. The whole of western capitalism is being financed by the poorest bit of society - **Expert advisor, NGO***

4. How do we identify, measure and mitigate our risk?

Section four examines how internal teams can identify current and future risks relating to ethical trade - across their organisation's global supply chains. This includes how mapping and prioritising risk 'hot-spots' based on considerations such as sourcing location and product type, and also, how to examine the root causes underlying that risk.



TOOL: Understanding and prioritising your risks

During 2016, ETI will be working with partner organisations to develop a comprehensive due diligence framework for its members. This will be followed by training and resources providing detailed practical guidance on conducting due diligence in global supply chains and by training and information resources on how sourcing strategies and purchasing practices can promote (rather than impede) ethical trade principles. Check the [ETI website](#) for news of these and other new resources. In the meantime, the following tool can be used as an initial exercise to help identify, and prioritise, risks across your supply chains.

What do you source?

Map your suppliers as far as possible

- Who is in their supply chain?
- What raw materials are involved?

Tool: e.g. SEDEX (see Appendix)



Who are your suppliers?

- Perceived risk by supplier *e.g. existing assessments*
- Who are your key strategic suppliers? *.E.g. Volumes purchased, strategic value, duration of relationship; % of their business*

“ It needs to be cost-effective... start by understanding your risks. So don't go over the top on low risk products (e.g. you can check out the 3M website), this leaves money for the really high risk products
Senior sustainability practitioner ”

Tool: e.g. Maplecroft (see Appendix)



Where do you source from?

- What is the (general) adherence in law, ethical standards?
- Have there been in-country violations of ILO conventions recently?
- What are local laws and customs relating to gender equality?

How is it made (and specific risks)?

- What kind of process are involved? E.g. heavy chemicals
- Previous incidences of code violations due to manufacturing practices?
- Review from a sub-material perspective, e.g. cotton, leather, dyes
- Who makes the item (risk of child labour / women rights violations)?

“ You want to look, what has happened in those countries and those sectors in the past and what is happening now ”
Global Sustainability Director

Insights from, and priorities for, your stakeholders?

- Ask for input from local NGOs, Trade Unions, OECD NCPs
- Review recent complaints from workers, media reports
- Review previous audits, what was highlighted. Were specific worker groups interviewed separately e.g. migrant workers, women workers?

Tool: e.g. Elementum (see Appendix)



“ Two things to consider
1. Likelihood of Non-Compliance vs. Importance to Organisation
2. Likelihood of Non-Compliance vs. Scope for Improvement ”

What are others doing?

- What are other companies in your sector doing? E.g. via trade press
- What are the issues facing other industries sourcing from the same or similar areas — what can be learned and translated to your sector?

... Create a database / matrix to rank the risk by Country and by Processes

Product	Inputs	Source	Bangladesh	China	Portugal	UK	Vietnam
		Risk	High	High	Low	Low	Mid
Jeans	Denim	Mid	Mid-High	Mid-High	Low-Mid	Low-Mid	Mid
	Cotton	High	High	High	Mid	Mid	Mid-High
	Dye	Mid	Mid-High	Mid-High	Low-Mid	Low-Mid	Mid
	Brass	Low	Mid	Mid	Low	Low	Low-Mid

... focus your efforts on the highest risk **AND** the highest volume

“ It is not easy to do. It is a bit like eating a big elephant - need to take one bite at a time. Even the biggest companies don't go and do everything at the same level
Head of responsible sourcing ”

WHAT HAS WORKED FOR OTHERS?

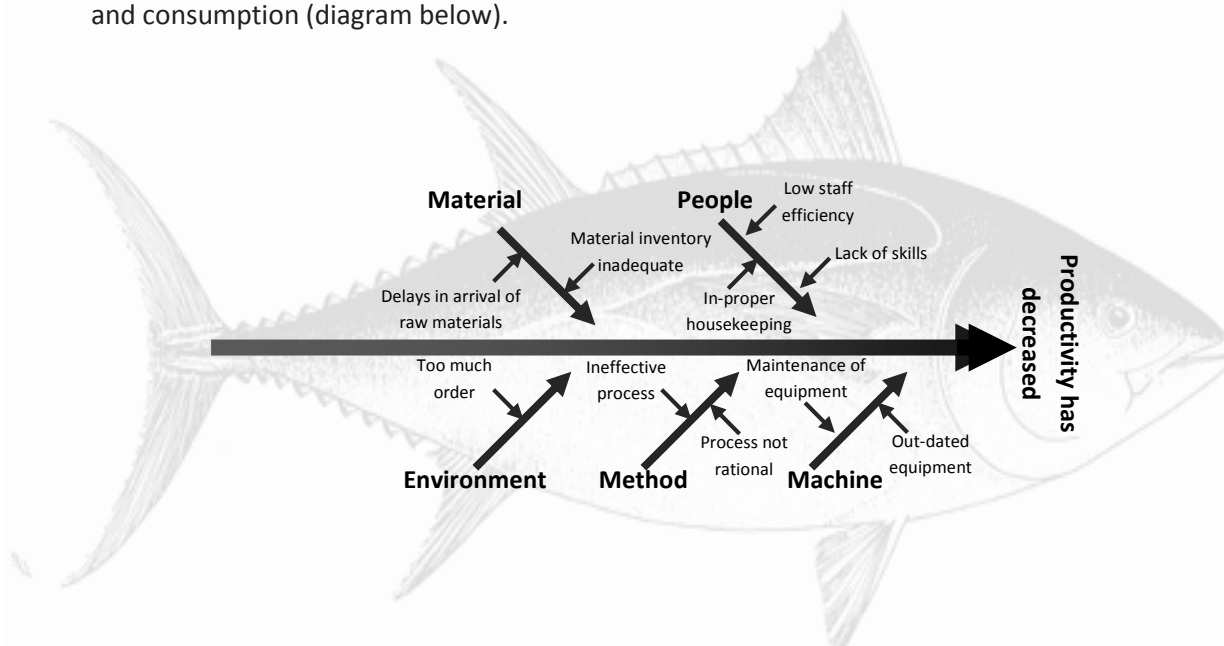
The following selection of perspectives and examples were provided via interviews with practitioners at different enterprises within international clothing supply chains, from trade unions and NGOs. In particular, these examples focus on three different tools and methods to examine and build deeper understanding of the root causes behind different risks associated with international supply chains and purchasing practices.

The Ishikawa or “Fishbone” Diagram

An Ishikawa Diagram provides a systematic way of looking at effects and the causes that create or contribute to those effects. The simplest way of constructing the Ishikawa Diagram is to use the 4M1E method to categorise causes. This involves identifying all the different causes and sub-causes of a problem or issue and then placing into one of five categories:

- **Person / People:** *anyone involved with the process.*
- **Methods:** *how the process is performed and the specific requirements for doing it, such as policies, procedures, rules, regulations and laws.*
- **Machines:** *any equipment, computers, tools, etc. required to accomplish the job.*
- **Materials:** *raw materials, parts, pens, paper, etc. used to produce the final product.*
- **Environment:** *conditions, e.g. location, time, temperature, and culture in which process operates.*

For instance, the United Nations Environment Programme (UNEP) used a Fishbone diagram to examine the key factors influencing the role of the retail sector in increasing sustainable production and consumption (diagram below).



Practitioner perspective

*From our perspective, it is quite simple the high-risk factories are those where there is not an independent collective voice. **Expert advisor, Trade Union***

Critical path mapping

Critical Path Management is a tool used by businesses to plan the tasks that must be completed on time if a project is to meet its delivery date. Understanding key critical paths can also provide valuable insights into how buying decisions are made and how these impact upon working conditions. For instance, questions to consider when reviewing your business' critical path include:

- What are the most common causes of missed deadlines?
- Where are missed deadlines most often happening?
- How is flexibility managed? *E.g. is time built in to allow for unplanned changes or alterations?*
- How are changes to orders managed? *E.g. who most commonly changes an order? How are these discussed with suppliers? At what point are changes most commonly made?*
- Where are the key pressure points in each of the processes within the production cycle? *E.g. lead times provided, last minute changes to design, consideration of logistic and transport restrictions.*

System mapping

A 'system' is a group of interacting, interrelated, and interdependent components that form a complex and unified whole. Its overall purpose or goal is achieved through the actions and interactions of these components. Mapping the system associated with a production supply chain can reveal key 'pinch-points' and opportunities to improve processes. There are a number of different ways you might approach mapping the system to represent system elements and connections. For example:

- **Actor maps** to show how individuals and/or organisations are connected.
- **Mind maps** to highlight various trends in the external environment that influence an issue.
- **Issue maps** to lay out political, social, or economic issues affecting a given geography or issue.
- **Causal-loop diagrams** that focus on explicating the feedback loops (positive and negative) that lead to system behaviour or functioning.

There are important distinctions to be made between regions, sectors and production sites specific issues. This information and more can be accessed through different learning tools within this guide, but also in a more interactive platform such as [ETI training](#). Different approaches can be used in better understanding issues and creating wider transparency. For instance, in 2007 Patagonia launched its Footprint Chronicles with the aim of 'becoming completely transparent and honest' about where their products came from and the resources required to create each product. An [interactive map](#) is available on their website which enables consumers to track each Patagonia product as well as providing information about Patagonia factories, textile mills and farms all over the world.



5. How do we measure the effects of our efforts?

Section Five discusses the importance of monitoring and measuring progress, to ensure continued internal support and so that ethical trade becomes linked to the way in which the business thinks about progress and performance.

Measuring progress within your business

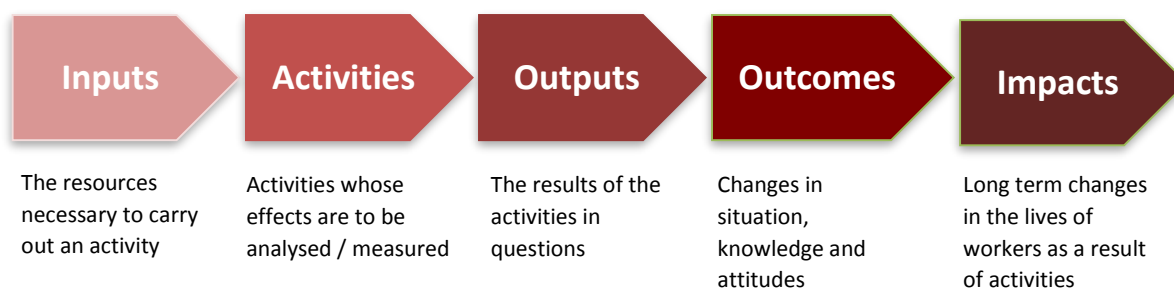
As part of the journey to integrate ethical trade principles into core business practices, organisations need to develop indicators, which measure performance and monitor progress against short- and long-term targets¹⁴. This should include establishing:

- Organisation targets e.g. number of suppliers with independent workers' committees in place.
- Individual targets e.g. per cent of changes to orders.

(A detailed tool of how to apply this further can be found on page 24)

Establish a coordinated set of SMART Indicators

It is important to ensure that indicators do not just focus on inputs, e.g. money spent on training, but also focus on outcomes, impacts e.g. number of trained suppliers or increased knowledge and changed behaviours. By developing a coordinated set of indicators which span inputs - impact, an organisation is better able to assess whether an initiative, programme or project is being implemented as planned, if it is leading to improvements, and whether it is necessary to adjust the activities to maximise benefit and overcome unanticipated obstacles.



Use SMART indicators

A second consideration, when developing indicators for ethical trade activities is to use the "SMART" criteria to ensure they are Specific, Measurable, Attainable, Relevant and Time related

- **Specific** actions with clear objectives and responsibilities for implementing them
 - *For example: What exactly is the employee expected to do?*
- **Measurable** – choose measurable key performance indicators e.g. how much, how many
 - *For example: What data will be used to assess success for the measurement indicator?*
- **Agreement** from the parties involved
 - *For example: Can the employee accomplish this objective in the proposed time frame?*
- **Realistic**, achievable actions (taking into account the resources, skills and time needed)
 - *For example: Does the employee have the skills, knowledge and authority to achieve this objective?*
- **Timescales** for implementing actions throughout the relevant departments
 - *For example: When will this work objective be accomplished?*

¹⁴ ¹⁴ As part of developing these targets, internal teams should also review the principles set out by the Ethical Trading Initiative with regards to the approaches to ethical trade expected of ETI members - see <http://www.ethicaltrade.org/resources/principles-implementation> for further details



TOOL: Reporting progress – company level

The UK Modern Slavery Act, United Nations Guiding Principles Reporting Framework and the Global Reporting Initiative all provides useful considerations and indicators for measuring and reporting performance at an organisation level. In particular, the requirements within the Modern Slavery Act are compulsory for all commercial organisations with a total turnover of £36 million or above.

The [Transparency in Supply Chains clause of the UK's 2015 Modern Slavery Act](#) states that commercial organisations that supply goods or services and have a total turnover of £36 million or above must prepare and publish “a slavery and human trafficking statement for each financial year of the organisation.” This may include:

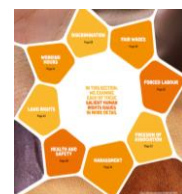
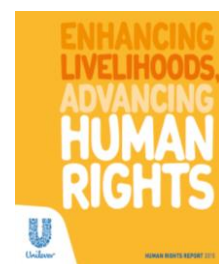
- information about the organisation’s structure.
- its business and its supply chains.
- its policies in relation to slavery and human trafficking.
- its due diligence processes in relation to slavery and human trafficking in its business and supply chains.
- the parts of its business and supply chains where there is a risk of slavery and human trafficking taking place.
- the steps it has taken to assess and manage that risk.
- its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate.

ETI provides [training for companies](#) on the implications of the Modern Slavery Act. ETI’s course takes a multi-stakeholder perspective. It will enable you to consider who will be reading and reviewing your Modern Slavery Statement and what should inform it. The course is informed by the ETI Base Code and international law and guidance. It includes perspectives from companies and the trade unions and NGOs who will be scrutinising company policy and practice.

UNITED NATIONS GUIDING PRINCIPLES - REPORTING FRAMEWORK¹⁵

Key information required by the UN Guiding Principles, includes:

- What does the company say publicly about its commitment to respect human rights?
- How does the company demonstrate the importance it attaches to the implementation of its human rights commitment?
- State the salient human rights issues associated with the company’s activities and business relationships during the reporting period.
- Does the company have any specific policies that address its salient human rights issues and, if so, what are they?
- What is the company’s approach to engagement with stakeholders in relation to each salient human rights issue?
- How does the company identify any changes in the nature of each salient human rights issue over time?



In 2015, Unilever became the first company to produce a detailed, stand-alone report using the UN Guiding Principles Reporting Framework

¹⁵ http://www.ungpreporting.org/wp-content/uploads/2015/02/UNGGuidingPrinciplesReportingFramework_withimplementationguidance_Feb2015.pdf

Integrating ethical trade principles into core business practices

- How does the company integrate its findings about each salient human rights issue into its decision-making processes and actions?
- How does the company know if its efforts to address each salient human rights issue are effective in practice?
- How does the company enable effective remedy if people are harmed by its actions or decisions in relation to a salient human rights issue?

GLOBAL REPORTING INITIATIVE¹⁶

GRI indicators of particular relevance to ethical trade:

- **G4-HR1** Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent Human Rights screening.
- **G4-HR2** Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
- **G4-HR3** Total number of incidents of discrimination and corrective actions taken.
- **G4-HR4** Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.



Practitioner Perspective

'Non-compliance indicators' are more for my role, instead we need to talk in buyer language – and find indicators relevant to their jobs. - Senior Sustainability Manager, Global Retailer

¹⁶ https://www.globalreporting.org/resourcelibrary/GRI-UNGP_LinkageDoc.pdf?dm_i=4J5,3TNLH,1H687S,DRZQG,1



TOOL: Linking ethical trade principles and buyer incentives

The following tool provides examples of objectives related to ethical trade and also associated key performance indicators (KPIs) which can be used to link the achievement of these goals to the performance of individuals / teams.

<p>GOAL: Ensure a critical path does not compromise suppliers' ability to comply with ethical requirements.</p>	<p>GOAL: Support suppliers who demonstrate commitment to improving labour rights and working conditions.</p>	<p>GOAL: Ongoing commitment to integrating responsible purchasing practices and ethical trade practices into core business processes.</p>
<p><i>Example indicators</i></p> <ul style="list-style-type: none"> • Number and cases where the critical path has been compromised • Sampling hit/conversion rate • Number of incidents of late order placement • Number of late changes to orders • Average length of lead time • Number of questionnaires for assessing the producers' experience of the company's purchasing practices distributed • Impacts measures implemented with suppliers to monitor how practices have changed 	<p><i>Example indicators</i></p> <ul style="list-style-type: none"> • % of orders placed with sites with trade unions or worker representation • % of orders placed with sites with evidence on fair and on time payment of wages • Average length of trade relationship with individual suppliers • % of suppliers who have mapped out the root causes for non-compliance and have developed corrective action plans • % of women supervisors at suppliers • % of suppliers with effective HR policies, including gender • % of suppliers who have been terminated due to lack of commitment and demonstration of improving working conditions 	<p><i>Example indicators</i></p> <ul style="list-style-type: none"> • Relevant personal development objective • Number of trainees reporting improved understanding as a result of ethical trade training • Number suppliers reporting they have implemented ethical trade tools and learning provided • Number of actions initiated to improve own practices • Number of suppliers demonstrating commitment to improving working conditions • Number of changes to labour practices implemented by suppliers • Number of observations of positive changes in working conditions during visits at production sites and reports from own visual observations

6. Monitoring and verification – going beyond audit

The final section of this toolkit examines the different ways in which an organisation can monitor and verify the performance of its suppliers. This ranges from staff visiting factories, independent bodies conducting audits, through to participative multi-stakeholder approaches which attempt to 'go beyond' a 'tick-box' compliance approach to empower suppliers. In particular, a core theme of this section is examining how different companies are incorporating more participatory methods as they move 'beyond audit', recasting their relationships with suppliers from 'policemen' to 'partners and from pass/fail compliance to comprehensive continuous improvement programmes.



TOOL: How to go beyond audit?

As a response to the risk of labour and human rights violations many companies and brands have established Codes of Conduct for their suppliers. Audits are used to assess suppliers' compliance with these codes. However, despite the hundreds of thousands of social compliance audits and their complementary corrective action plans (CAPs) conducted each year, there is little evidence that they alone have led to sustained improvements in many social performance issues, such as working hours, overtime, wage levels and freedom of association. As a result, there is a growing body of evidence that demonstrates auditing suppliers against compliance 'tick-sheets' has a number of limitations in terms of achieving last improvements to workers' conditions.

Whilst auditing can provide an overview of some of the conditions in place, it only provides a snapshot and should be used as one tool amongst other approaches to ethical trade. Review how your organisation assesses your suppliers' performance – in particular whether audits are capturing a full and comprehensive understanding of the labour practice within your supply chains. If not (which is likely) consider using other methods that ensure that workers are able to participate actively and fully in the monitoring exercise, e.g. taking part in group discussions, drawing maps that indicate safe and risky areas, taking part in semi-structured interviews that allow unanticipated issues to be drawn out and explored. ETI can provide guidance on these methods on request.

Participatory Approaches

Participatory approaches are ways of actively engaging stakeholders in measuring the progress and impact of a project. By involving stakeholders, such as workers as much as possible in the process, we are more likely to identify relevant problems and come up with relevant solutions (corrective actions) to them. Some of these approaches may be adapted to the process of social auditing in supply chains, but only if auditing is seen as part of an ongoing process of mutual engagement and continual improvement, rather than a snapshot in time capturing breaches of codes imposed from afar. Participatory approaches are grounded in the following principles:

- **Participation:** Primary stakeholders are active participants in the design and delivery of the process, not just sources of information. Their perspectives are valued and respected. This generates richer, more accurate data and fosters a greater sense of ownership.
- **Learning:** Through discussion and group activity, all participants (and auditors) learn together and use this learning to decide on corrective actions.
- **Commitment:** The sense of ownership builds commitment at all levels ensuring that the progress of the work is adequately measured and that corrective actions are implemented.
- **Negotiation:** Between the different stakeholders to agree on what will be monitored and evaluated, how and when data will be collected and analysed, what the data actually means and how findings will be shared.
- **Flexibility:** Uses creative methods to match the resources, needs and skills of participants in different contexts and at different times.

Some examples of participatory methods include: focus groups, maps and diagrams, Most Significant Change methodology, semi-structured interviews, storytelling, transect walks, video and photography. ETI can provide guidance on these methods on request.

Below is more detail on one of these examples:

Maps and Diagrams

How it works

Groups of workers are asked to discuss places or issues of significance in the relevant area (workplace, accommodation), e.g. locked doors, areas with dangerous chemicals, latrines, journey to work etc. and then to draw a map with these areas/issues mark on it.

Consider what questions you want the mapping to answer; participants themselves should also be asked what questions are important to them. For example, an outsider may not be aware that people from different castes are given different kinds of work, or that they are expected to eat separately from the others.

Identify who will undertake the exercise – choose a broad range of people and consider the dynamics of different groupings of people. E.g. Would separate groups of men and women result in very different maps? Or would a mixed group mean a richer discussion about what should go on the map?

Ask them individually or in groups to draw their workplace, journey to work, living quarters or other relevant area and on it to mark places of significance to them, draw routes, identify blockages or danger zones and safe spaces. If the map is being produced by a group, observing the discussion that takes place to decide what goes on the map can be as enlightening as the map itself. Individuals' maps or maps produced by different groups can be used to compare perceptions, as discussion points, to deepen understanding of reality on ground.

Advantages

- May produce first visual record for community, greatly valued-highlight different perceptions of one's social environment.
- Can be used at various stages of a project.
- Elicits rich information.
- Provides a record for participants to keep and continue discussing and for future comparison. Photographs of maps can be used to communicate to decision-makers about the programme.

Challenges

- Important to ensure a good cross section of participants.
- Requires adequate time and space.

Practitioner Perspective

*We need to move beyond auditing and go for initiatives that address issues at a deeper, more fundamental level. **Expert advisor, NGO***

WHAT HAS WORKED FOR OTHERS?

The following selection of perspectives and examples were provided via interviews with practitioners at different enterprises within international clothing supply chains, from trade unions and NGOs. These examples discuss tools and approaches to move beyond traditional compliance based auditing practices to improve company-supplier-worker engagement, and ultimately provide a more robust monitoring of labour practices within supply chains.

Train suppliers on ethical trade

One way to augment supplier audits is to build suppliers' capacity so that they can better implement existing codes of conduct themselves. This could involve:

- Providing guidance and training to develop understanding of Freedom of Association and Collective Bargaining processes.
- Training and advice for suppliers and workers – for example, in human resource management or health and safety, adapted for men and women and delivered in local languages.
- Providing advice and training on productivity and resource management.
- Providing practical tools to help suppliers work towards compliance (e.g. guidelines).
- Encouraging different suppliers to share experiences and learn from each other.
- Helping suppliers develop management systems for code compliance.

This could also include providing suppliers bespoke training and practical tools to help them put their codes into practice. For example:

- Written case studies demonstrating the benefits of improving workers' conditions.
- Checklists to assess their own compliance (before audits).
- Information leaflets on ethical trade, workers' rights.
- Training materials in local languages for management and workers.

Practitioner Perspectives

*We organised ethical trading training courses and workshops for our suppliers, explaining our standards, raising awareness of ethical issues and helping suppliers to manage ethical issues in their own countries and industries. Training was in the local language where applicable and paid for by us. Sessions included: the issues associated with using temporary labour, overtime and productivity management. - **Global retailer***

*We developed a project to replace auditing by placing responsibility for code compliance back in the supplier workplace. The overriding objective of the programme is to develop a way of working that relies instead on sound management systems. Two factories in India have been selected to pilot the project. Part of the work included relationship building with local trade unions, identifying and agreeing the impacts and success criteria (aside from code compliance) that will be assessed – such as productivity, labour turnover and quality measures. - **Fashion Retailer***

Case Study: Better Work - Using soap operas to train workers in Vietnam

The [Better Work programme](#), is a partnership between the ILO and IFC, and produced six episodes, each starring well-known Vietnamese actors and addressing a different issue faced by workers: grievance handling; dispute resolution and procedures for legal strikes; health and safety; overtime; stealing; and underage workers. The soap operas were designed to provide a relaxed learning experience for audiences with low literacy levels and a high proportion of women. At the end of the session, workers are handed comic book summaries of the episode that they can read on their own and share with other workers who did not attend. Typically, the sessions were conducted in a canteen over a lunch break.

Worker voice and worker representation

Another way to go beyond a 'tick-box' or compliance approach is to establish independent and confidential communication channels for workers to raise issues such as job satisfaction, workplace productivity and livelihoods. These platforms can also be used to share information with workers directly e.g. on health and safety and factory improvements. Such channels are particularly valuable for women workers who may not feel able to speak out in front of men, or who may have lower or no literacy levels.

The example mechanisms listed below should never be used to replace mature industrial relations including effective worker representation, which is the preferred and most appropriate way to ensure that labour rights are being adhered to and respected. Brands should also be careful not to undermine the relationships between workers in their supply chain and those workers' employers. There are key differences between worker voice, grievance mechanisms and worker representation.

Where independent free trade unions are not active, ETI and its members will seek to tackle the barriers to their presence, but in the interim workers will be supported to represent themselves, engage with their employers and defend their rights. Workers must be at the centre of ethical trade so that they play an active role in ensuring that they access and enjoy their rights. We will encourage business to work with representative trade unions, locally, nationally and globally, so that workers are able to enter into collective bargaining agreements and therefore play an active role in identifying problems and risks, find solutions, negotiate effectively and have their voice heard on issues that affect them directly.

Further approaches to engage trade unions and workers at workplace level:

- **Via trade union representatives:** set up regular meetings between trade union representatives and your local in-country teams.
- **Influence and encourage factories to have worker committees:** These should be freely elected and not appointment by management. There should be representatives from both workers and management who can sit on the committee and independent training should be provided on rights and responsibilities.
- **Women's committees:** following the same steps as worker committees, but specifically to address different needs.

Other examples of monitoring working conditions and understanding workers needs can include:

- **Mobile-phone platforms:** e.g. LaborLink.
- **3rd party telephone hotlines** e.g. Clear Voice Hotline; LaborVoices, Fast Forward etc.
- **Hand-out business cards:** every time a member of your organisation attends a factory ask that they leave business cards with workers.
- **Email address and web-portal:** establish an easy to remember email address for workers to submit feedback.
- **Via local NGOs and OECD National Contact Points (NCPs):** set up meetings with local groups – in particular those who may have good knowledge of particular groups of workers, e.g. women, migrant workers or child workers.
- **Monitor social media (e.g. twitter):** for complaints from other workers in country or in similar factories, supply chains.

Practitioner perspective

We partnered with an international NGO to facilitate on-site workshops for workers to co-create solutions to their priority issues. For instance, women workers prioritised child care, resources for substance abuse, and financial literacy training. Men wanted improved transportation and financial literacy training. We also used the results from a mobile SMS grievance mechanism to formulate factories' corrective action plans. -

Global Clothing Design Company

If Trade Union and workers' representatives are involved in audits, they can help identify differences between worker rights in different sites. For instance, one organisation we worked with notices that protective equipment was not being provided free for all sites, with some workers having to pay for their own equipment. Through the collective voice this was brought to management attention and rectified -

Expert advisor, Trade Union

Establishing partnerships with trade unions and worker representatives

Case Study: Inditex and IndustriALL

In 2007, Inditex signed a [Global Framework Agreement](#) (GFA) with IndustriALL Global Union, establishing a formal framework for dialogue and cooperation. Part of the impetus for this relationship was a common belief in the limitations of auditing. The partnership is designed to take a more preventative approach to worker issues by responding to problems before they have been flagged by auditors or escalated into a dispute. The GFA states that Inditex and IndustriALL will work together to verify the right to freedom of association in the supply chain and, where problems are found, cooperate in finding solutions.

The agreement was further strengthened through the 2012 Protocol, which specified the role of trade unions in the enforcement of the GFA within Inditex's Supply Chain. The 2012 Protocol also recognizes the important role that local unions play in implementing the GFA given their proximity to factories.

Where local unions identify a breach regarding the GFA it notifies Inditex and IndustriALL, who then introduce a Corrective Action Plan should the breach be confirmed. In addition to the original GFA, the Protocol requires Inditex to give a full list of all its 6000 suppliers and subcontractors (including the volume of their production) to IndustriALL to enable it and local union affiliates to make better contacts with workers. The terms of the agreement apply equally to direct suppliers, contractors and sub-contractors including homeworkers. No subcontracting is allowed without the prior written consent of Inditex. Suppliers allowed to subcontract will be responsible for subcontractor compliance.

Over the past 8 years' activities and results from this agreement include:

- *Training programmes in core labour standards - jointly developed for managers, officials, workers and supervisors from suppliers, external manufacturers and representatives of local trade unions*
- *Development of information kits for worker representatives*
- *Jointly developed grievance mechanisms*
- *As a direct result of the GFA, concept of a living wage was introduced into Inditex's Code of Conduct*
- *GFA Coordinators: Inditex has committed to funding a network of coordinators whose sole role is to help implement the Agreement. Trade union experts will be assigned in countries with significant production output for Inditex and will be able to work with the company's local CSR teams*

Each year Inditex [reports](#) on the impact of the partnership which includes the number of auditors trained; details of worker participation; % of success rate for corrective action plans; number of suppliers trained.

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For further information

The Ethical Trading Initiative (ETI)

The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our vision is a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.

Global supply chains are highly complex and challenging for companies committed to trading ethically. Workers' rights issues are often deep-rooted and widespread and are best tackled through collaborative action. We harness the expertise, skills and resources of our alliance members to identify these issues and develop innovative, long-lasting solutions. Our measure of success is that workers can negotiate effectively for a better working life where their rights are respected.

The WellMade Project



WellMade was launched in July 2013, led by Fair Wear Foundation and a consortium of partner organisations. WellMade was developed to help provide everyone working in European clothing companies with tools to understand the major labour issues that they have influence over, and how they can support better conditions. Sessions were offered at a range of European trade fairs, professional events, and in-house with companies. The project is further focused on building a wide-ranging library of useful resources, as well as interactive case studies for all to access. WellMade brought together a unique group of NGOs, business associations and trade unions who were willing to share their expertise and commitment to improving labour conditions in apparel supply chains - all of which continues to contribute implementing sustainable improvements globally for garment workers.



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