

*Coming clean
on the clothes
we wear*

Research Procedure

Twenty-five major apparel retailers and brand merchandisers were selected for inclusion in the Report Card, based on their relative market share by annual sales of apparel, and on their prominence in the Canadian market. We decided to include both retailers and brand merchandisers in our study because they face very similar labour rights issues in their supply chains where their private label and branded apparel products are made.⁴

The Canadian retail apparel industry is dominated by a relatively small number of large companies, followed by a larger number of smaller firms with more limited geographic or market scope, and specialty stores. The top four apparel retailers in Canada (Sears, Wal-Mart, The Bay and Zellers, in that order) account for approximately 30% of the Canadian retail apparel market. Retailers and brand merchandisers increasingly drive the terms and conditions of apparel production.

The Canadian retail market, as will become apparent in this report, is also dominated by US-owned brands and retail companies. For this reason our survey has focused on major brand merchandisers and retailers based on their prominence in the

Canadian market rather than only by their ownership. We have not focused exclusively on Canadian-owned companies.

We developed a base profile of each company including its ownership structure, its market presence by number of outlets, and its personnel responsible for code compliance.

In May 2005 we mailed an initial letter to each company introducing the Ethical Trading Action Group, outlining our study and indicating how the company could assist us with the research. We asked each company to provide any relevant public documents it had produced that would assist us in evaluating its reporting on labour rights issues in its supply chain. We received only one response to our initial request for public documents.

Our researchers gathered all available public documents for each company, including annual reports, SEDAR⁵ filings, US Securities and Exchange Commission (SEC)⁶ filings, corporate social responsibility reports, news releases, and web pages.

We then sifted through the data for each company looking for reporting in a set of 19 different areas. Once we had established a score for each company in each area, we sent each company an individual

⁴ We also decided to exclude from our study retailer/manufacturers like American Apparel that have all their apparel products manufactured in their wholly owned factories, and therefore have not adopted policies and procedures to address supply chain labour rights issues. Gildan Activewear was also excluded from the study because it is solely a manufacturer.

⁵ SEDAR (the System for Electronic Document Analysis and Retrieval) is the system used for electronically filing the disclosure documents of public companies and investment funds across Canada. Filing with SEDAR started January 1, 1997, and is now mandatory for most reporting issuers in Canada. The SEDAR system includes most of the documents which are legally required to be filed with the Canadian Securities Administrators and many documents which may be filed with the Canadian exchanges (market centres).

⁶ The Securities and Exchange Commission is a US federal agency organized to regulate the securities industry and administrate the various federal securities laws. All companies, including Canadian companies, operating in the United States are required to file registration statements, periodic reports, and other forms electronically through EDGAR, the SEC filing database. Anyone can access and download this information for free.

Report Card identifying the categories and criteria upon which companies were being evaluated, the weighting for each, the individual scores for the company in each criteria, and the company's overall score. We also clearly identified the source material we used to arrive at each score and the elements that made it impossible to increase the score based on the available materials.

In August 2005, we invited each company to respond to our initial findings by supplying us with any additional public material which addressed the questions being asked, and to identify any other points we may have missed or misinterpreted. Fourteen companies responded, and eight of those companies sent additional materials, which altered the final ratings in four instances.⁷

Many companies surveyed for this study asked that efforts they are making that are not reported to the public be included in the survey results. We decided not to include in our assessment information that is either confidential or released on a discretionary basis, because we believe that consumers and investors require accurate, timely and complete information in order to make ethical choices. If a company is carrying out work that is not being reported, their customers and investors are unable to track progress over time or to make informed decisions.

Some companies were reluctant to participate, as shown in the following excerpts from letters received from Harry Rosen:

As a private company we are under no obligation to share the kind of information you are requesting.... We deal only with well-

established companies that have been in business for a long time. We know the management of these firms and have toured most of the factories. The working conditions we have seen are at a world-class level, in terms of health, safety and labour standards. It is our policy to deal with companies that are of that standard.... I am compelled to add that I sensed an accusatory tone in your letter. Unless a company takes the action of completing your survey and disclosing private information, ETAC [sic] presumes that the firm is doing business in contravention of labour and other standards. The implication is that, by not participating in the survey, the firm is guilty of breaches of corporate responsibility. I find this extremely distasteful and undemocratic.

... and from Le Château:

Please be advised that as a public company, we take our responsibilities to operate with integrity and to use ethical practices in every aspect of our business very seriously.... While we appreciate and understand the outside perspective you have given us regarding our group's efforts, we do not, at the present time, make any of our internal policies and procedures a matter of public record. We have taken the matter under advisement and will determine where we may have opportunities to share this information publicly.

Gradient Index

In carrying out this survey, ETAG utilized and adapted the Gradient Index, developed by AccountAbility in the UK and applied in its own 2004 study of reporting by public companies in the UK across a number of

⁷ Materials provided by November 15, 2005 are included in our company assessments.



Table 1. Gradient Index with Accountability and ETAG Weightings

Category	AA weighting	ETAG weighting
Governance and risk management	20%	10%
Policy	15%	15%
Stakeholder Engagement	15%	20%
Management	25%	20%
Auditing and Reporting	25%	35%

industries. The Gradient Index allows one to situate a company’s progress in each area according to specific, measurable steps.⁸

The Index rates company reporting in five categories, with a series of questions in each category, to gauge each company’s reported efforts to comply with international labour standards. The five categories are:

- Governance and risk management (board-level responsibility for ethical issues and analysis of labour standards issues in the supply chain as a risk factor)
- Code for labour standards in the supply chain (availability, quality, and application of code of conduct)
- Stakeholder engagement (involvement in multi-stakeholder initiatives and engagement with labour/NGO groups in importing countries and countries of manufacture)
- Management (how a company implements its policies)
- Auditing and reporting (auditing across the supply chain; third party involvement; labour/NGO involvement; publication of process, findings, and how a company

addresses areas of non-compliance; and disclosure of factory locations)

The Gradient Index was designed to allow for modifications in the weighting given to each of the five categories in order to reflect the priorities of the organization carrying out the research. Table 1 shows how ETAG decided to weight each category as compared to AccountAbility’s original weightings.

Under ETAG’s weighting, stakeholder engagement and auditing and reporting are a full 55% of the score. This reflects a growing recognition among leading companies that self-regulatory efforts are not sufficient and that transparent auditing and reporting as well as engagement with stakeholders are key elements in effective code implementation programs. Conversely, we put slightly less emphasis than does AccountAbility’s original weighting on internal governance practices.

We made some additional alterations to the Gradient Index to account for recent developments in reporting on global supply chains, such as public disclosure of global supply chains. See Appendix C for more details.

⁸ AccountAbility’s Gradient Index system can be seen on the following web site: www.gradient-index.net