

ETI CORPORATE ANNUAL REPORTING GUIDELINES 2004

Purpose of this document

This paper explains the ETI corporate annual reporting process for 2004, including the reporting template for companies and details of how the reports will be assessed.

Reporting period and submission of reports

Reports should relate to the calendar year i.e. activities that took place in the **year ending 31st December 2004**.

The deadline for submission of reports is **Friday 25th February 2005**. Reports submitted after the deadline will not be considered. Please send all reports to **Carol Sheldon at the ETI Secretariat**, email: carol@eti.org.uk. Please preferably use electronic format for the main body of your report. For appendices it is mandatory to use the Excel templates provided as this will allow us to shorten the time for feedback.

Purpose of annual reports

The Purpose of the ETI corporate annual reporting process is to:

- Provide ETI with the opportunity to review progress of individual members and of the ETI membership as a whole
- Reinforce members' commitment to transparency and public accountability in this area
- Enable ETI to assess continuing membership eligibility
- Document and share good practice
- Assist each member to make an assessment of its own progress towards achieving code **compliance** within its supply chain
- Enable members to know how they are performing relative to each other
- Encourage collaboration and exchange of ideas through corporate-to-corporate sharing of reports

Reporting guidelines

Except for section 8 where "Provide 3 key objectives relevant to your application of the Base Code for the year" has been deleted, the template for corporate annual reports is the same as last year's:

- All appendices are to be completed in provided Excel spreadsheet
- Appendix B has two columns: number of non-compliances and number of corrective actions
- Appendix E Miscellaneous includes an up-to-date turnover and profit figure and human resources data.
- Training and capacity building are aggregated under one section which will comprise all training activities and education programmes to build capacity within your organisation, your suppliers, small-scale suppliers and workers in your supply base.
- Appendix F provides definitions for relevant terms (in bold in the main text)
- All corporate members will share their reports with each other as well as with TU and NGO members subject to signature of a confidentiality agreement
- We are asking for an original of the annual report signed by a board director

How corporate reports will be assessed

Each report will be assessed based on the extent to which it demonstrates that the company is meeting the ETI membership commitments and other key indicators of good performance in code implementation.

Assessment criteria

The specific assessment criteria to be used are as follows:

1. Overall standard of the report is acceptable

Reports will be assessed according to the extent and clarity with which they cover the issues requested in the corporate annual reporting template. Please be as specific as possible. For example if you mention a training session, specify number of trainees, content of the course, duration.

2. Company code matches the ETI Base Code, where appropriate

The critical issue here is whether suppliers are being monitored against the principles of the ETI Base Code. If a company is monitoring against its own code, then the company code must incorporate all the principles of the ETI Base Code.

3. Top management commitment to ethical trade exists

The specific **indicator** here is whether or not there is a representative at Board level with responsibility for **ethical trade**

4. Human resource commitment to ethical trade

The specific **indicator** here is the number of full-time staff or equivalent (e.g. 2 staff members each working 50% of the time on ethical trade issues will be considered equivalent to one full-time staff) working on code implementation issues within the company. Please note numerical data is to be provided in appendix E.

5. There is effective communication within the company and its supply base about ethical trade

6. Establishment of capacity-building programmes and activities

i.e. establishment and maintenance of programmes that build the capacity in supplying countries to monitor and improve labour conditions. Examples of such activities include: long-term programmes of training and information provision to assist fellow employees and/or suppliers in meeting labour standards, projects to support small-scale producers to meet ethical and other market requirements, worker education activities, support to local worker organisations.

7. Company monitors a substantial and increasing percentage of its supply base, and monitoring activities incorporate high-risk areas

By "high-risk areas" is meant parts of the supply base (this may be particular countries, regions or product lines) where there is a high risk of finding serious violations of the Base Code.

Specific indicators are:

- Proportion of scoped supply base monitored. (When a company applies to become a member of the ETI, they are permitted to "scope" the application of the Base Code to a particular part of their supply base e.g. own-brand products only. "Scoped supply base" refers to this part of the supply base). Please make sure you clearly define what your scoped supply base is. Give numerical figures to indicate how many suppliers does that represent out of your total known supply base .
- Extent to which company has demonstrated a sound grasp of the types of code violations they are likely to find in their supply base, and where these violations are likely to be found.
- Extent to which company is prioritising monitoring activities in high risk areas of the supply base

8. Company demonstrates ability to detect non-compliances

Specific indicators are:

- Number of non-compliances detected relative to number of supplier sites evaluated
- Number of non-compliances detected that relate to areas of the Base Code *other than health and safety*

9. Company ability to implement corrective actions where non-compliances are found

Specific indicators are:

- Number of significant corrective actions relative to number of supplier sites assessed

- Number of significant corrective actions taken that relate to areas of the Base Code *other than health and safety*

10. Priorities and targets set last year are meaningful and met

11. Pro-active participation in ETI activities

This includes participation in:

- Experimental projects and working groups; and/or
- Other steering groups such as impact assessment steering group, the annual reporting working group, Workbook development group; and/or
- Representation on the Board; and/or
- Contributions to ETI roundtables, seminars and other learning activities

Assessment of reports and follow-up actions

Each company report will be reviewed against these assessment criteria, taking into account the length of time the company has been a member of ETI, the length of time it has been running an ethical monitoring programme and the degree of progress from year to year. Based on this assessment, each company will be categorised into one of five groups depending on level of performance and progress made.

Every corporate member will receive a letter detailing how they have been categorised, reasons, areas of good performance, and areas for improvement.

To date, there has been a pattern of year-on-year improvements and most corporate members are making good progress. However, in the case of companies who are not performing well against the assessment criteria and who are not demonstrating significant progress, the Board will seek a meeting with the most senior manager with ethical trade responsibility to agree a plan for improvement.

Where a corporate member is clearly not meeting its ETI membership commitments and does not implement the improvement plan within the agreed time-scale, the Board may invoke the *Procedure to Disengage Persistent Poor Performers*.

All corporate members, regardless of their level of performance, will have the opportunity to request a meeting with the Board should they wish to discuss any issues arising from the assessment of their report.

Validation of report content

This year, a sample of annual reports submitted by corporate members will be validated by an independent organisation. The purpose of this process will be to find out whether the information presented in the annual reports is meaningful and accurate, and whether it is based on data collected through robust management and record-keeping systems. The results of this validation exercise will be kept confidential and, for this year, will **not** be used to assess the performance of individual members.

Sharing lessons and results

An analysis will be carried out of the information presented in all the company reports, so as to give ETI a picture of the performance of the corporate membership as a whole, including key trends, examples of good practice, and key lessons and challenges.

Evaluations of the performance of individual members will be made available to the ETI Board only. However, like with the 2003 report, corporate members will share their reports with each other as well as with TU and NGO members subject to signature of a confidentiality agreement.

Anonymous, aggregated information about the overall performance of the ETI corporate membership, general trends, lessons and challenges will be made available to the wider membership and to the public.

ETI Corporate Annual Reports: Template 2004

Reminders

Reports should relate to the calendar year i.e. activities that took place in the **year ending 31st December 2004**.

The deadline for submission of reports is **Friday 25th February 2005**. Reports submitted after the deadline will not be considered. Please send all reports to **Carol Sheldon at the ETI Secretariat**, email: carol@eti.org.uk. Preferably use electronic format as well for the main body of your report. For appendices it is mandatory to use the Excel templates provided. An original report signed by a board director should also be sent to the Secretariat.

Reports should be clear and concise and address each point requested. Please use examples if necessary.

Please note that the reporting company should be able to produce documentation (for example site inspection reports) to support the figures that are presented in the report. Supporting documentation is not required with the annual report but the ETI Board may request to see supporting evidence after examining members' reports.

Contents of report

1. A brief description of the size and activities of the reporting company.

How long the company has been a member of ETI.

The latest version of the Company Code of Conduct

Explanation of differences between Company Code and ETI Base Code, where appropriate.

Explanation of whether the company is auditing its suppliers against the company code or the ETI Base Code (or both). If auditing is being conducted against the company code, what steps the company is taking to bring its code into alignment with the ETI Base Code and the timetable for implementation.

2. Schematic diagram showing where the responsibility for monitoring compliance fits within the company structure/hierarchy.

The most senior champion of social responsibility should be named on the schematic.

The number of staff (including consultants) working on code implementation/ethical trade issues within the company. For each member of staff, state whether full-time or part-time. If part-time, please give approximate percentage of time spent on ethical trade issues. Appendix E allows you to enter this information. If you need to describe (including diagram if helpful) how ethical trade considerations are taken into account in purchasing decisions please do so in this section.

Please answer the following questions and explain:

Do your purchasing practices reflect ethical considerations? Do they prevail over purchasing criteria?

Is there a process in place to screen new suppliers on an ethical basis?

Do you have a contractual commitment with your suppliers that includes an ethical clause?

Give details of any suppliers disengaged for their refusal to work towards compliance and a breakdown of the reasons for the disengagement.

3. Details of ethical communication exercises that have been initiated both internally and externally by the company and/or its suppliers. E.g. supplier conference, meetings, newsletters, documentation, presentations.
4. Involvement in any capacity-building activities, i.e. activities that build the capacity across your supply base to monitor and improve labour conditions. Examples of such activities include training programmes in ethical supply chain management that the company has run (e.g. for supply chain staff) or been involved with (e.g. training programmes run by suppliers that the company has presented to), projects to support small-scale producers to meet ethical and other market requirements, schemes to support suppliers in sharing code implementation lessons, worker education activities, support to local worker organisations. Please be specific in terms of number of people that have benefited, content of courses, duration.
5. A description (including a diagram if helpful) of the company supply chain (e.g. use of **suppliers**, degree of sub-contracting, use of **agents** etc). Details of which parts of the supply chain have been scoped for implementation of the ETI Base Code and what percentage of the total supply base these parts represent. Which parts of the chain are excluded.

Where the company uses agents whether these agents have adopted the ETI Base Code and implemented a system of compliance monitoring. How far in the supply chain does this ethical monitoring extend?

Whether the full extent of the supply base is known and, if not, what the company is doing to identify the unknown part of the chain or ensure Base Code compliance in the unknown part of the chain.

What percentage of your suppliers has been with you for more than 1 year? (Note: this question is for ETI to gain a better understanding of the nature of members' supply chains.)

Whether the company operates a confidential **complaint mechanism** for workers to report failure to observe the Base Code? If so, what is the nature of the complaints mechanism? How many times the procedure has been used? How does your mechanism insure that the worker/s raising the complaint are protected? If so have you had any complaint raised this year, if yes give details specifically what has been your learning from this experience?

Has the company received complaints from trade unions or NGOs about their supply base on code breaches of the Base Code in their supply chain? If so, please give an example and what you have learnt from it.

6. A description of the company's compliance monitoring strategy. This should include an explanation of how the company has assessed the risk of code violations in different parts of its supply chain, which areas are seen as carrying the highest risk, and how the company has prioritised its monitoring activities. An explanation should also be given of how non-compliances are handled – how corrective actions are decided upon, and what is done to ensure that agreed corrective actions are implemented.

Fill in Appendix A, "Assessment Profile", to give an overview of compliance monitoring work carried out by the company during calendar year 2004. Give comparative data for 2003, if available. Check that the previous year totals match those reported as "current year" last year (or provide an explanation if the two differ). All relevant data should be entered, including the "total supplier sites" figure. Indicate what "total supplier sites" means (whether it is literally the total supplier sites figure for the company, or whether it is identified supplier sites, supplier sites within the scope of the company's ETI membership, or any other category.) Re-audits of sites audited in previous years count as audits for reporting purposes.

Give like-for-like data for comparison with previous years where there has been a major change in the reporting unit during the year (i.e. where the company has changed size substantially through merger, acquisition or sale.)

Fill in Appendix B, "Country Breakdown of supplier sites evaluated, non compliances and corrective actions"

Fill in Appendix C, "Significant Corrective Actions". This table should include all significant corrective actions (not just examples). See Appendix C template for the definition of "significant corrective actions".

Fill in Appendix D: "Significant Unresolved Non-Compliances."

Give an estimate of when the company expects to have monitored the full supply chain (i.e. all of the supply base scoped for implementation of the ETI Base Code). The company may wish to break down targets/estimates for first tier, second tier, third tier suppliers. (Note: this information will **not** be used for assessing company performance)

7. Details of any verification of supplier audits, or audit of the company's ethical management system, and who conducted any such **verification** or audit. ("Verification" means an additional, independent process of checking the robustness of supplier audits, whether the original audits were carried out by company staff or audit companies).
8. An assessment of how the company has performed against its own targets (as presented in last year's annual report).

Priorities and targets for next year. This should include details as to how the reporting company prioritises evaluations. (All priorities and targets should be set out here, even if they have been implied in answers to previous questions).
9. Particular learning from ETI you have applied in any activity during the year.
10. Particular issues that the reporting company would like to see ETI work on as a group.
11. Any additional comments the company would like to make on key lessons learnt during the year, and key challenges (optional)

Degree of Transparency

Will you be making your report to ETI public? Yes/No

What are your main reasons?

Appendix A: Assessment Profile (Excel spreadsheet provided)

- Notes: (1) Fill in only those lines in the table that are appropriate to your company's particular assessment programme.
 (2) "Total Assessed" means the total number of supplier sites assessed under each sub-heading.
 (3) Do not enter multiple levels of inspection of the same supplier site in the same year – report only the most thorough level of inspection.
 (4) Remember to enter the "total supplier sites" (scoped supply base) figure at the bottom of the table and make sure that the sub-totals sum correctly to the grand totals.
 (5) An Excel version of this table is attached.

Assessment Type	Assessment Profile	Last Year (2003)		This Year (2004)		Next Year (Target 2005)	
		Number	%	Number	%	Number	%
Risk assessment (1) – desk only	Compliant						
	Non-Compliant						
	Total assessed						
Risk assessment (2) – site visit as part of a product inspection	Compliant						
	Non-Compliant						
	Total assessed						
Internal inspection (1) – selected code items only	Compliant						
	Non-Compliant						
	Total assessed						
Internal inspection visit (2) – whole code	Compliant						
	Non-Compliant						
	Total assessed						
External inspection (1) – code questions added to technical audit	Compliant						
	Non-Compliant						
	Total assessed						

External inspection (2) – partial or short audit	Compliant						
	Non-Compliant						
	Total assessed						
External inspection (3) – full scale audit	Compliant						
	Non-Compliant						
	Total assessed						
External inspection (4) – detailed look at a particular issue	Compliant						
	Non-Compliant						
	Total assessed						
Full multi-stakeholder process	Compliant						
	Non-Compliant						
	Total assessed						
Totals – All Types	Compliant						
	Non-Compliant						
	Total assessed						
	Not assessed						
	Total supplier sites						

Definitions

Risk assessment (1) – desk only

Assessment of the risk of a breach of the base code conducted remotely, e.g. by sending a questionnaire to the supplier

Risk assessment (2) – site visit as part of a product inspection

A staff member (e.g. a product technologist) visiting a supplier conducts a risk assessment against the base code in addition to the normal product inspection.

Internal inspection (1) – selected code items only

A staff member specialising in codes of labour practice evaluates the supplier on selected code items only.

Internal inspection (2) – whole code

A staff member specialising codes of labour practice evaluates the supplier on all code items.

External inspection (1) code questions added to technical audit

An external assessor adds questions on the code of labour practice to its normal technical audit.

External inspection (2) short inspection	An external assessor (commercial or non-profit) conducts a brief inspection against the code of labour practice, primarily for risk identification purposes.
External inspection (3) full scale inspection	A thorough (multi-day) inspection of the supplier's labour practice against the full code by an external assessor (commercial or non-profit).
External inspection (4) detailed look at a particular issue	A thorough inspection of the supplier's labour practice in one or two areas of the code only, by an external auditor (commercial or non-profit).
Full multi-stakeholder process**	An inspection process in which other stakeholders (such as trade unions and NGOs) are involved from the design stage and share decision-making on inspection methods.

** Please describe any significant stakeholder relationships developed during the reporting year and indicate how the relationship contributed to the ethical management of the supply chain.

Appendix B: Country Breakdown of Supplier Sites Assessed (Excel spreadsheet provided)

Add and delete countries as necessary.

Country	Number of Supplier Sites Assessed	Number of non-compliances	Number of corrective actions
Albania			
Bangladesh			
Belgium			
Brazil			
Bulgaria			
Cambodia			
Canada			
Chile			
China			
Etc			
Etc			
Total All Countries			

Appendix C: Significant Corrective Actions (Excel spreadsheet provided)

Note: All significant corrective actions should be shown.

“Significant” means a corrective action that involves a new investment or change to management practice (not something which is simply the enforcement of an existing practice, e.g. correcting a small mistake in overtime pay or the refilling of a recently-expired fire extinguisher).

The table shows examples.

Country	Code Category	Supplier	Change Made	Change Sustained	Method of Confirmation
Indonesia	Working hours	Supplier 1			D
		Supplier 2			S
		Supplier 3			S
	Living wage	Supplier 1			S
		Supplier 2			TP
		Supplier 3			TP
	etc	etc			
Chile	Freedom of association	Supplier 1			MSH
		Supplier 2			D
	Non-discrimination	Supplier 1			S
Etc	etc	etc			

Method of Confirmation:

D	Desk information only – the reporting company is only aware of the improvement through postal or electronic communication, or through a questionnaire
S	Site Visit – the change has been confirmed by observations during a site visit (or visits) by a member of the reporting company's staff.
TP	Third party – the change has been confirmed by observations during a site visit (or visits) by a third party inspector/auditor
MSH	Multi-stakeholder – the change has been confirmed by a fully representative multi-stakeholder process.

Appendix C: Explanatory Note

Examples of actions that count as “significant corrective actions”:

- wages increased to legal minimum
- dangerous wiring removed and replaced
- written contracts given to workers (who didn’t have them before)
- supplier agreed to recognise union and negotiate collective agreement
- overtime hours reduced to legal maximum
- supplier agreed to pay premium rate for overtime
- identity documents returned to employees
- understandable pay slips issued to staff (where not previously supplied)
- supplier to run training programme for supervisory staff to eliminate coercive practices
- non-discriminatory promotion introduced

Examples of things that **do not** count as “significant corrective actions”:

- notes of the existing situation in a factory at the time of audit (e.g. “first aid boxes available”)
- non-compliances identified (e.g. “pregnancy testing at the time of recruitment”)
- issues that have been raised with supplier management but not otherwise acted on (e.g. “response from supplier awaited”)
- small changes in the workplace that didn’t require an investment or change of approach by the supplier, (e.g. rectifying a mistake in overtime pay where the wrong payment was not part of a wider problem of underpayment of overtime).

The idea is to report actions that have led to a definite and identifiable improvement in the workplace, as a result of the monitoring activities of the ETI member company.

Appendix D: Significant Unresolved Non-Compliances¹ (Excel spreadsheet provided)

Country	Code Category	Supplier	Description of Non-Compliance	Reason for Remaining Unresolved	
Country 1 (name country)	Clause No. 1	Supplier 1			
		Supplier 2			
	Clause No. 2	Supplier 1			
		Supplier 2			
	Etc	Etc			
Country 2 (name country)	Clause No. 1				
	Etc	Etc			

Definition

“Significant non-compliance” means a non-compliance involving the risk of significant physical harm to supplier employees, or a non-compliance involving a pattern of on-going breaches to rights provisions in the code.

¹ For clarity purposes, please state your own definition of ‘significant non-compliance’ if divergent

Appendix E: Miscellaneous (Excel spreadsheet provided)

Revenue	
Turnover (£)	
Profit (£)	

Employees	
Total global workforce (direct employees)	
Total number of buying staff	
Number of dedicated ² staff working on ethical trading (total)	

Other employees (not dedicated) working on ethical trading

Category	Number of individuals	Percentage of time on ethical trading	Full time equivalent³
Commercial/Buyers			
Technologists			
Other ⁴			
Total			

² Dedicated staff means employed full time on ethical trading

³ Full time equivalent is the number of individuals multiplied by the percentage of time spent on ethical trading

⁴ Please specify if possible

Appendix F: Glossary

Agents: A person or company authorized to transact business for another and/or in the name of another. In the context of the garment industry, brand name companies often work through agents who do the actual placing of orders with various suppliers to have garments produced.

Capacity building: activities that build the capacity in supplying countries to monitor and improve labour conditions. Examples of such activities include projects to support small-scale producers to meet ethical and other market requirements, schemes to support suppliers in sharing code implementation lessons, worker education activities, support to local worker organisations.

Compliance: To be in accordance or conformity with something. In this context, this term is used in relation to upholding the labour standards outlined in a code

Complaint mechanisms: Confidential/independent complaints mechanisms are channels through which workers can register a complaint or concern about working conditions in their workplace, *independent from and without the knowledge of their employer*. Such mechanisms should be able to guarantee that the identity of the worker making the complaint remains confidential, and that sincere efforts will be made to resolve the problem(s) identified by the worker.

There is a distinction between 'external' and 'internal' complaint mechanisms. Internal mechanisms are those where complaints are directed to and handled by the sourcing company. An external mechanism refers to systems where an independent organisation, such as a local trade union organisation, NGO or multistakeholder initiative, is responsible for receiving and handling complaints. In practice, there may be a combination of both, that is where a sourcing company works in collaboration with a local independent organisation.

Corrective action: Action to be taken to correct **non-compliance** (also referred to as **nonconformance**) with any of the Base Code provisions. Such an action would involve a systemic change to ensure that compliance (also sometimes referred to as conformance) with the code principle is achieved and ongoing. A **corrective action plan** is the program of action drawn up to resolve the non-compliance. Of importance is who designs, gives input for, and finalizes the corrective action plan. Other important factors are the schedule for the corrective action plan, as well as who has responsibility for the plan, including implementing and following up on it (i.e. monitoring and verifying compliance with the prescribed actions). *Also referred to as remediation.*

Ethical trading and ethical sourcing: This refers to the assumption of responsibility by a company for the implementation of the principles of the ETI Base Code within its supply chain. The term concerns the behaviour of the sourcing company but does not imply complete responsibility or the existence of obligations that apply in every situation

High-risk areas: By "high-risk areas" is meant parts of the supply base (this may be particular countries, regions or product lines) where there is a high risk of finding serious violations of the Base Code.

Indicator: a measure of performance, either qualitative or quantitative

Management system: A management system refers to all the organizational structures, procedures, processes, and means that are necessary for the proper implementation of a company's policies. In relation to monitoring and verification activities, management systems have a double aim: to ensure that the labour standards included in a code are implemented and monitored, but also to ensure that regular business is conducted in such a way that suppliers can meet the standards they are supposed to uphold (for example pricing and scheduling activities) (SOMO)

Monitoring: in the context of the workplace, monitoring refers to the surveillance of labour practices against a standard by a person (or persons) with a continuous or frequent presence in the workplace and unobstructed access to management and staff.

Remediation: the process of correcting. See related term: **corrective action**

Significant non-compliance: a non-compliance involving the risk of significant physical harm to supplier employees, or a non-compliance involving a pattern of on-going breaches to rights provisions in the code.

Stakeholder: Any party that is affected by the activity or operations of an enterprise. All stakeholders are not equal and should not be treated equally. The workers whose working conditions are the subject of codes of labour practice are recognised as having the greatest stake in ethical trading.

Verification: in the context of codes of labour practice verification concerns the impartial examination and certification of claims made about the actual observance of code provisions by suppliers or of claims made about the activities that a company undertakes to give effect to its code. The essence of verification is about the credibility of public claims. Verification implies a re-examining of the evidence in order to establish that previously reported results are accurate.

Because it is about credibility verification would have to be conducted according to rules and processes by qualified persons and organisations where the rules, processes and qualifications are previously established through a process widely regarded as legitimate and authoritative. Verification would have to be independent of the workplace being examined and of any authority that carried out an inspection or assessment being verified. Although some commercial enterprises offer "verification" services and some multi-stakeholder initiative "certify" auditors or workplaces, these enterprises and initiatives do not have sufficiently widespread acceptance of their legitimacy or authority.

Verification would be a rule-driven process where organisations and individuals performing verification follow carefully defined standards and obey rules that cannot be changed by the company that has engaged them to perform verification. The thinking is that both organisations and individuals would receive "accreditation" from an organisation created for this purpose. Verification would then be the process to the "certification" (of workplaces, companies or ethical trading management systems).