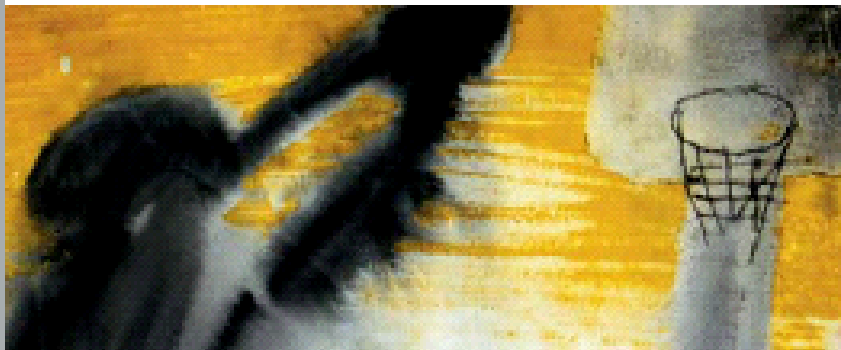


# Pausing for thought

fy04



Corporate Responsibility Report





**What we learnt from our report:**

**The process of engagement**

**The data**

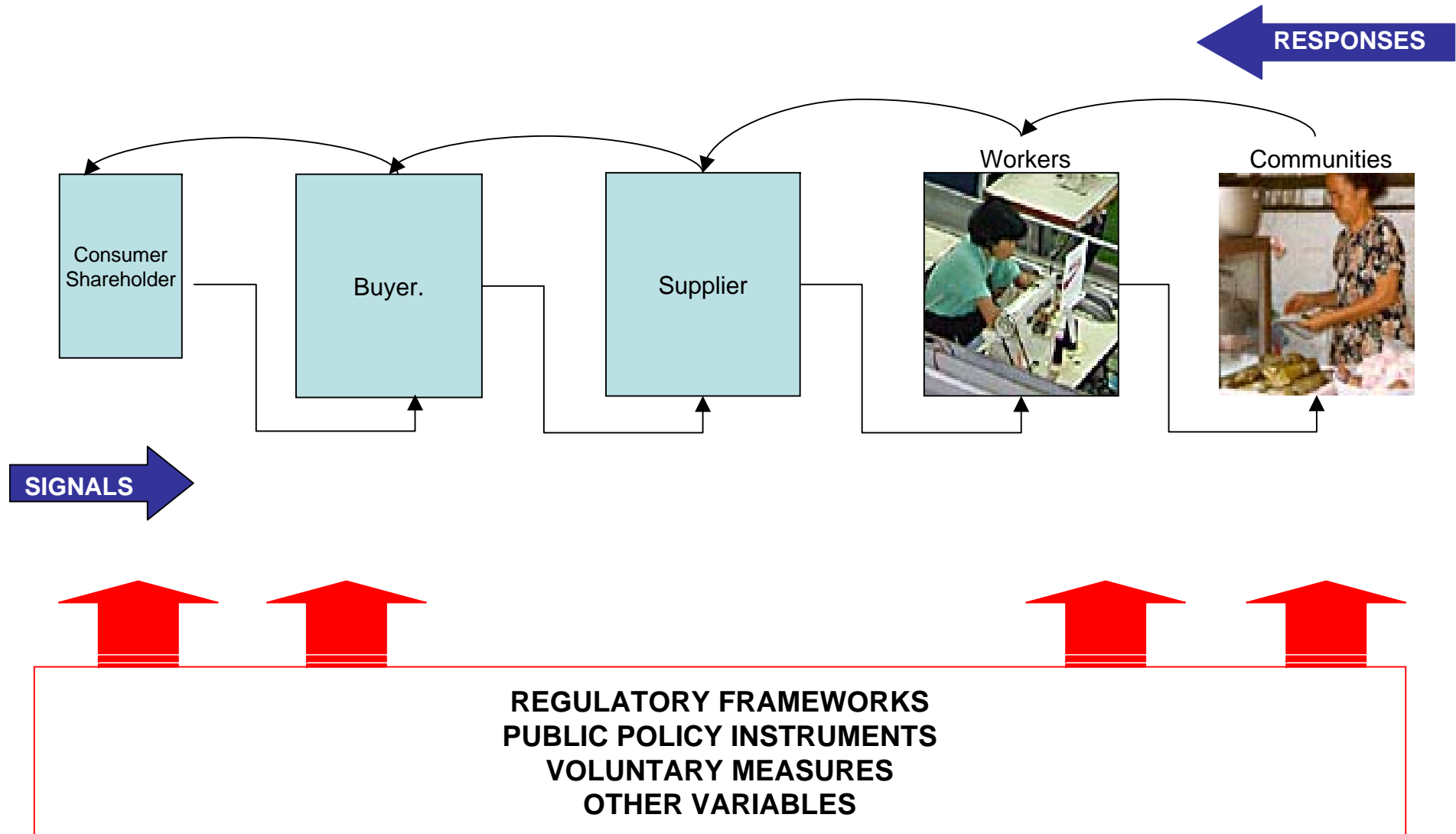
**The internal dialogue**

**The implications**



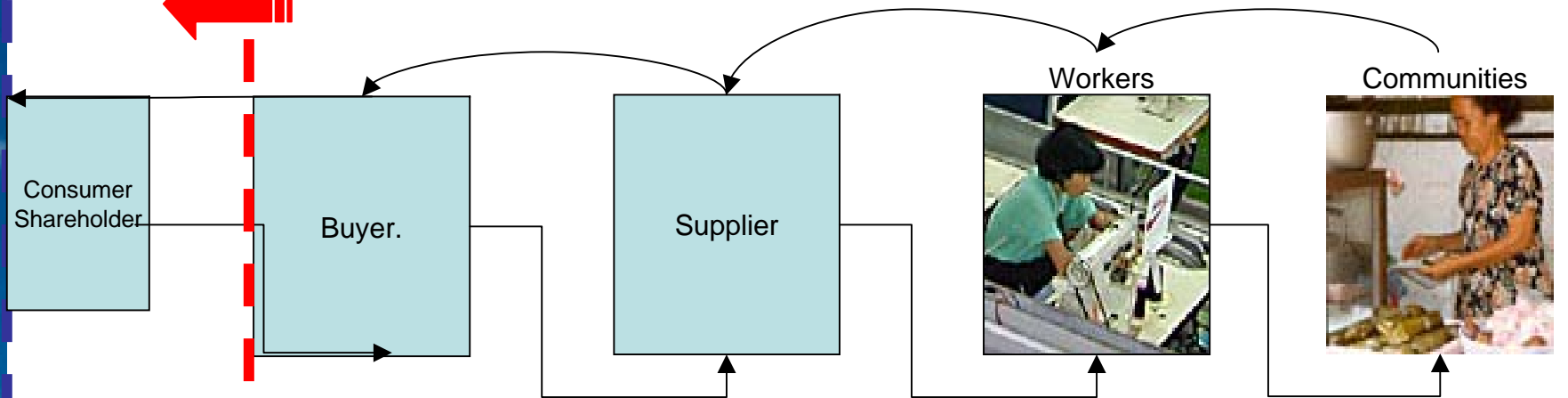
**How do we affect systemic change in workers conditions in the apparel, footwear and equipment industries?**

# The global “supply chain”



# MARKETFORCES

## REGULATORY & INTERNATIONAL FRAMEWORKS



- CONSUMER COMPARES AND REWARDS BRANDS FOR CR

- BRANDS COMPARE SUPPLIERS
- INDUSTRY INVESTS IN COLLABORATIVE MONITORING AND REMEDIATION EFFORTS
- BRANDS REWARD SUPPLIERS FOR PERFORMANCE

- COMPLIANCE SYSTEMS SUPPORT OVERALL ABILITY MANAGE BETTER
- COMPLIANCE PROVIDES COMPETITIVE EDGE IN B2B PROPOSITION

- CONSTRUCTIVE INDUSTRIAL RELATIONS IS ENCOURAGED BY EMPLOYER AND WORKER JOINT TRUST-BUILDING

- STABILITY AND ECONOMIC OPPORTUNITY LEAD TO BROADER L COMMUNITY DEVELOPMENT

# RESPONSIBLE COMPETITIVENESS?

# Worst case scenario

- Negative pressure puts premium brands in “lonely leadership position”

- ‘Ducking’ is sometimes the better business proposition...

- Supplier see compliance as a COST

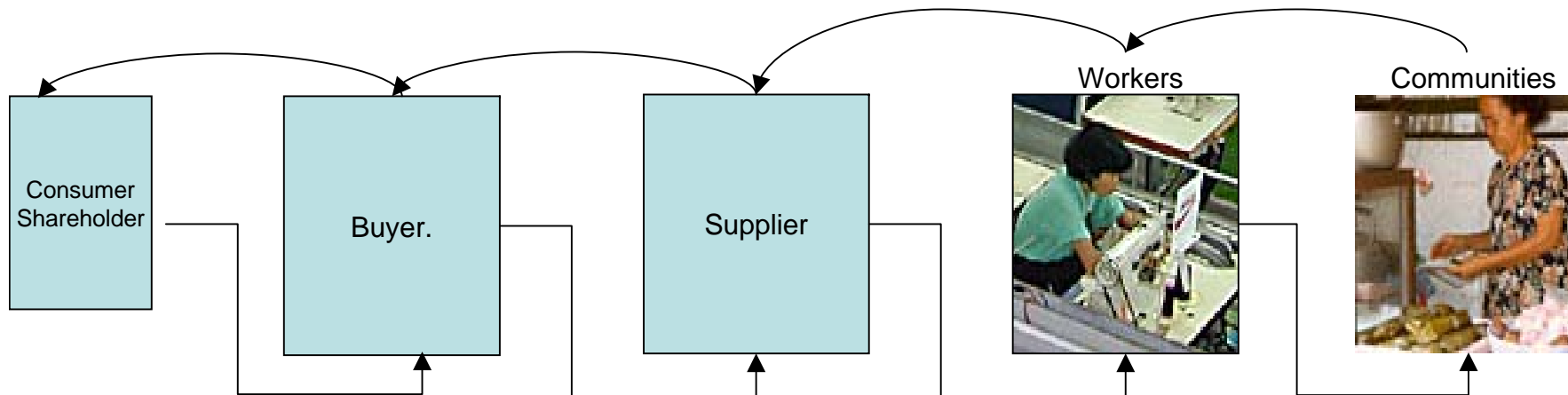
- May find it more advantageous to “avoid” compliance requests or work with others that don’t request compliance...

- Best of class suppliers may face lonely leadership syndrome

- Supplier passes increased costs by squeezing labor costs.

- Suppliers fail to see link between labor standards and productivity/competitvity.

- Workers rights are more prone to abuse.



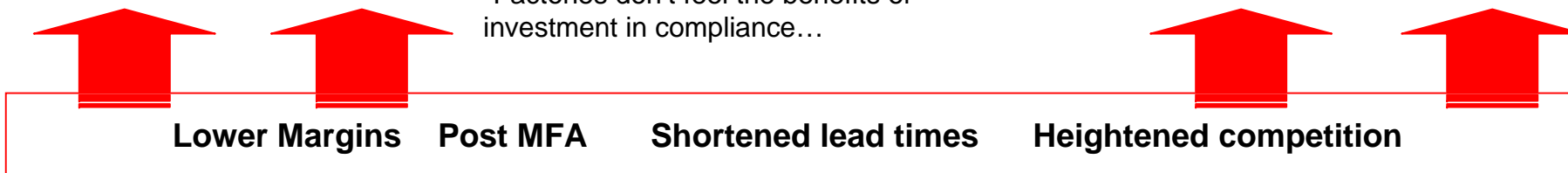
- Consumer doesn’t reward CR

- Buyer don’t include compliance in sourcing decision

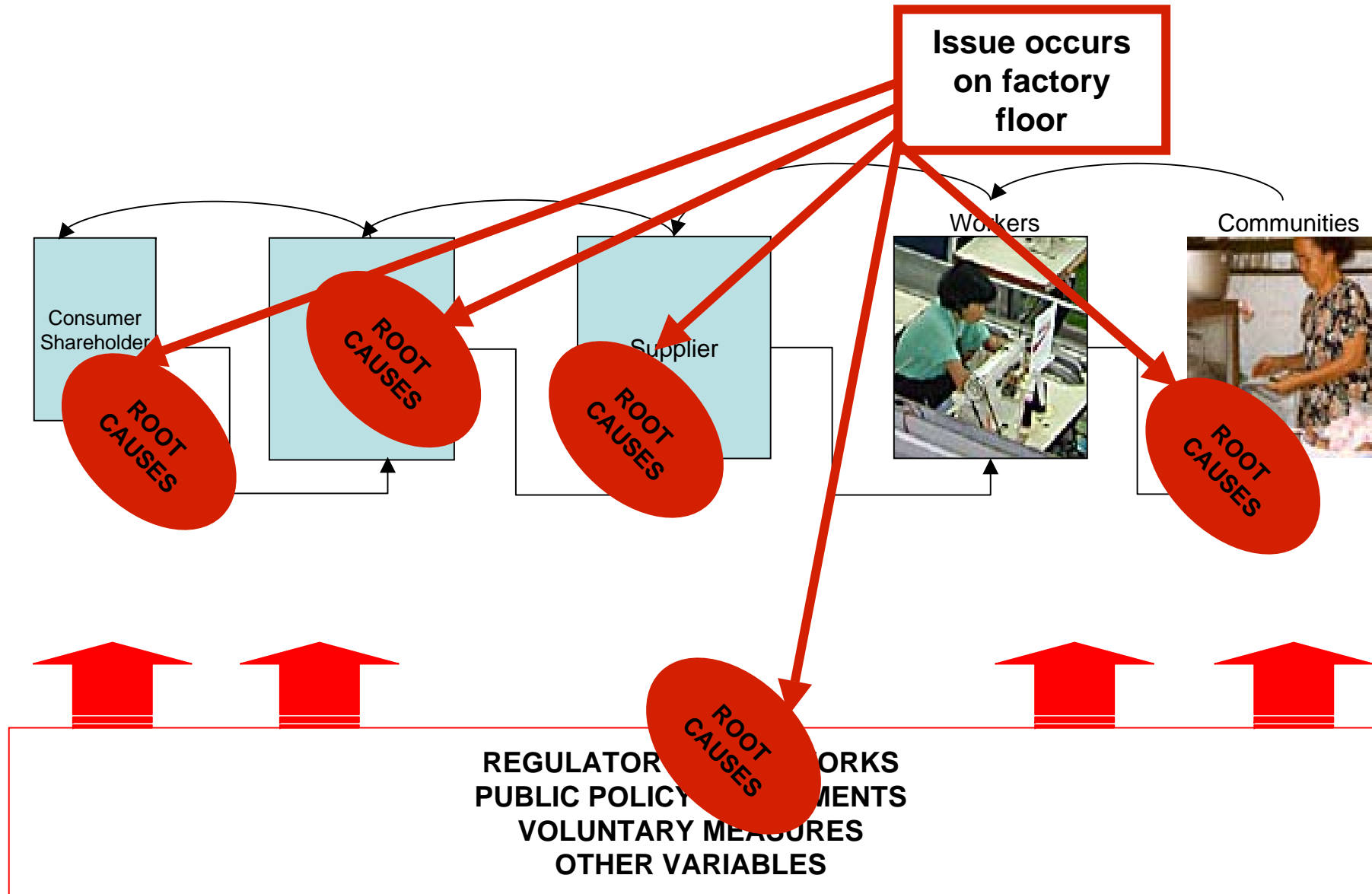
- Factories don’t feel the benefits of investment in compliance...

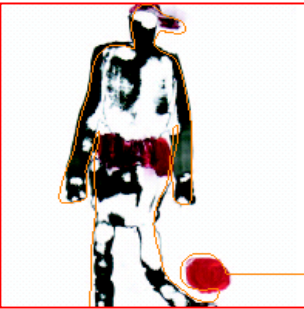
- Rule of law/civil society is in infancy

- Unemployment is the only alternative

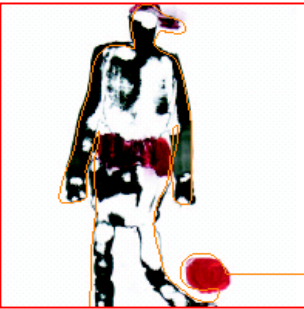


# Band aids or remedies?



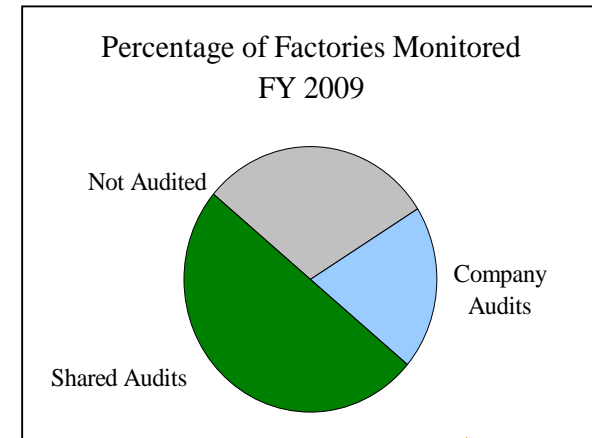
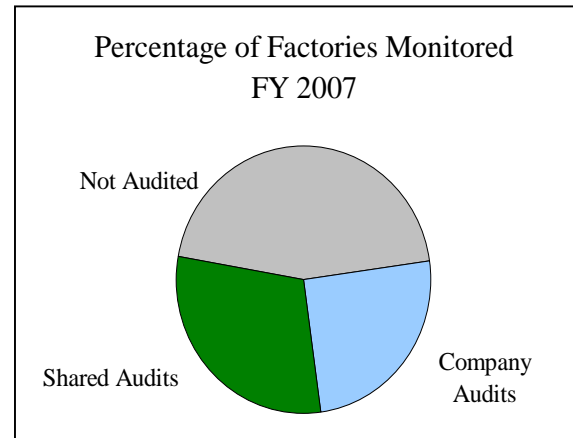
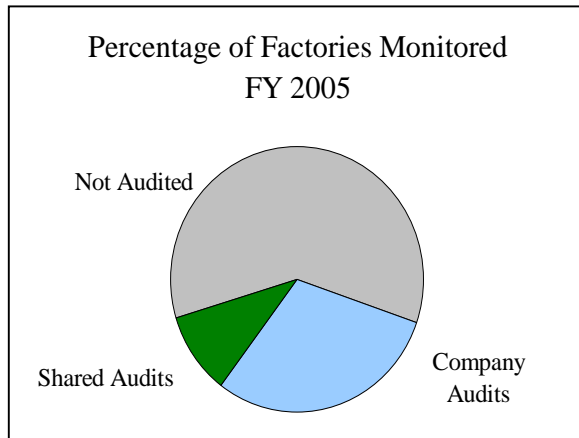


**So what does that mean for business?**



- **Transparency and Partnership**
- **Monitoring – efficiencies and effectiveness**
- **Internal business modeling**
- **Industry capacity building**
- **Changing needs, changing skills**

# Increasing Audit Coverage Through Cooperation



- Exchange of data limited due to secrecy around supply chains.
- Beginning to see collaboration on Codes and Audit Protocols via JO-IN (6 Codes Initiative).

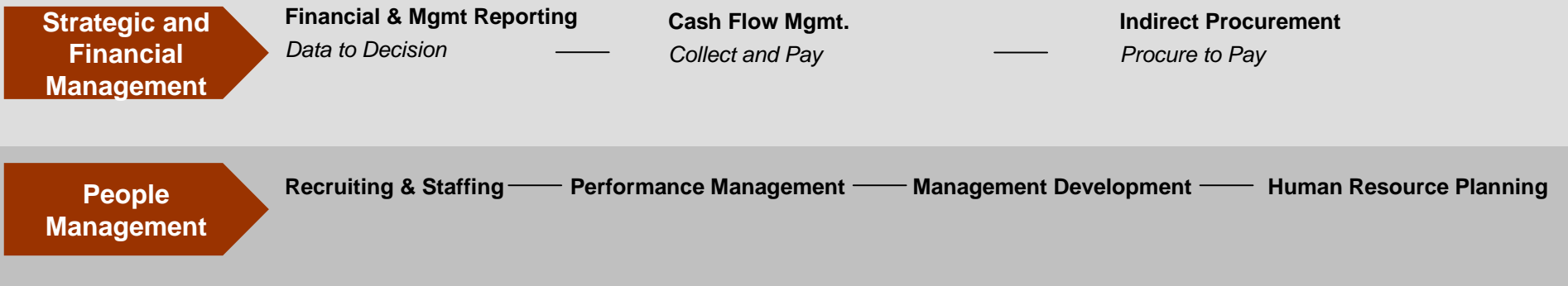
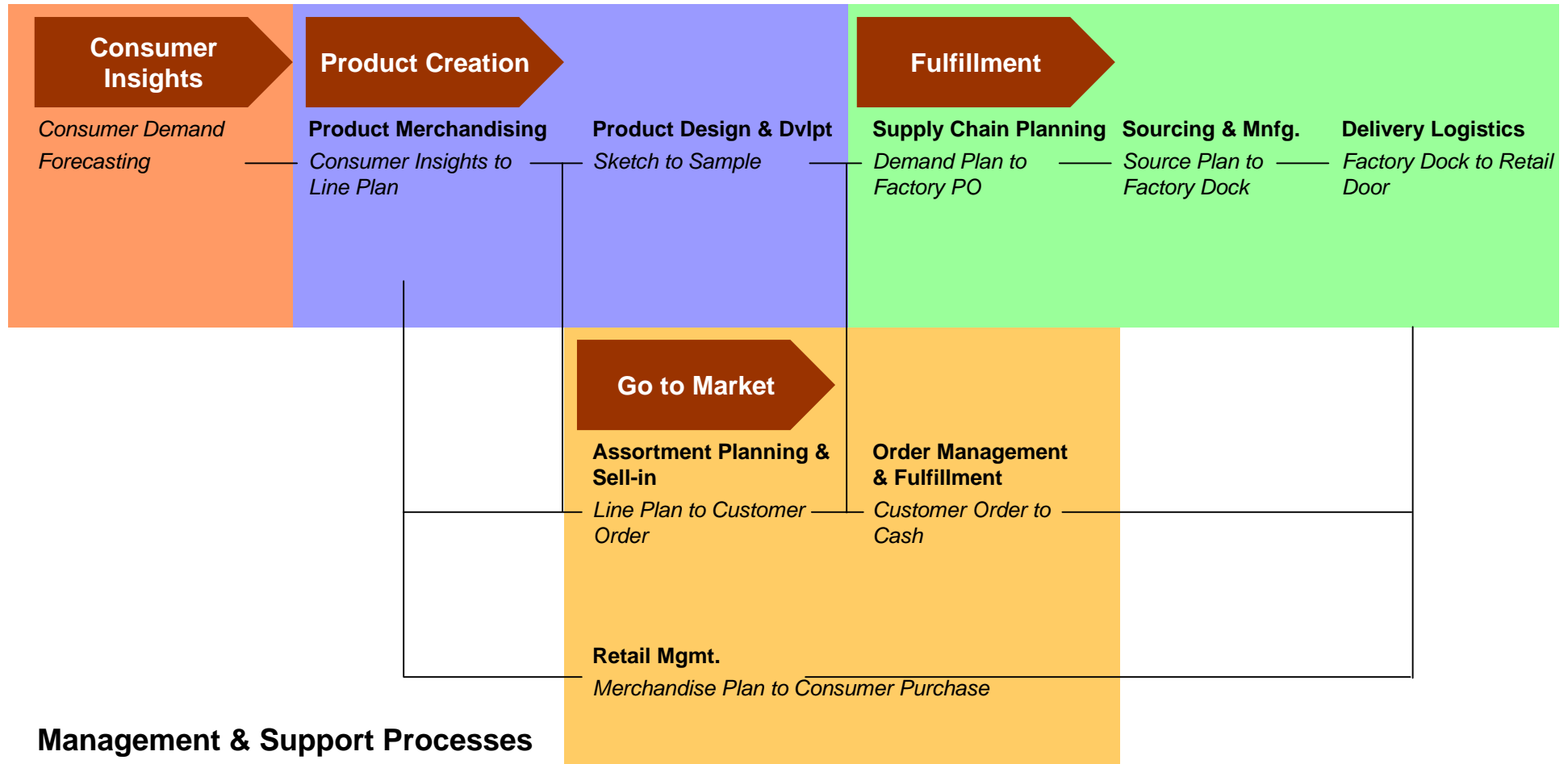
• Exchange monitoring data with other platforms or companies carrying out monitoring. Focus on sharing of audits despite diverse approaches.

• Assume that sharing will lead to gradual greater consensus on audit protocol allows for more NGO-led/other independent monitoring and greater overlap of supply chains.

• Transparency turns NGO/Trade Union raising of factory based issues into a support mechanism to monitoring

• Some factories “graduate” beyond the need for audits as they proactively invest in compliance and demonstrate best practice.

# LOOKING ALONG THE PIPELINE



**Incentives Program:**

Mfg Ptr & Mat'l Supplier Incentives

Internal Performance Incentives

Potential Incentives Include:

- Increased Production Orders
- Leverage Lean Mfg Techniques

Potential Incentives Include:

- FOB / Gross Margin Improvement
- PSP / CFE
- Recognition / Awards

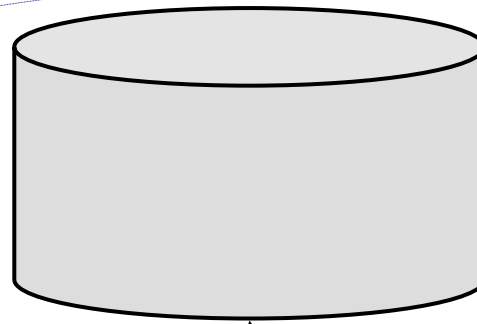
Behavioral Changes

- CR Integrated Into the Business Model
- Process, Organization, & Tech. Alignment

- Drive Performance Improvement in Our Mfg Partners, Material Suppliers, and our Sourcing Teams

**Balanced Scorecard:**

- Implement the Critical, Few Elements of the Balanced Scorecard



**Balanced Scorecard:**

<b>Financial</b> - Revenue - Gross Margin/GM% - FOB/COGS - OpEX/SG&A - CapEX/ROIC	<b>HRP (Innovation/Learning)</b> - Training \$/Employee - Rev. / Employee - # Employees - etc.
Cost Quality	Delivery Compliance

Brand / Consumer  
and Strength  
Customer Satisfaction  
Response

- M - Mgmt of Labor
- E - Environmental
- S - Safety
- H - Health

**Supplier Management (Sourcing Strategies):**

- Align Sourcing Strategies to Enable Performance Incentives

FACTORY A

BASELINE PERFORMANCE

CURRENT ORDERS

FACTORY B:

BASELINE PERFORMANCE

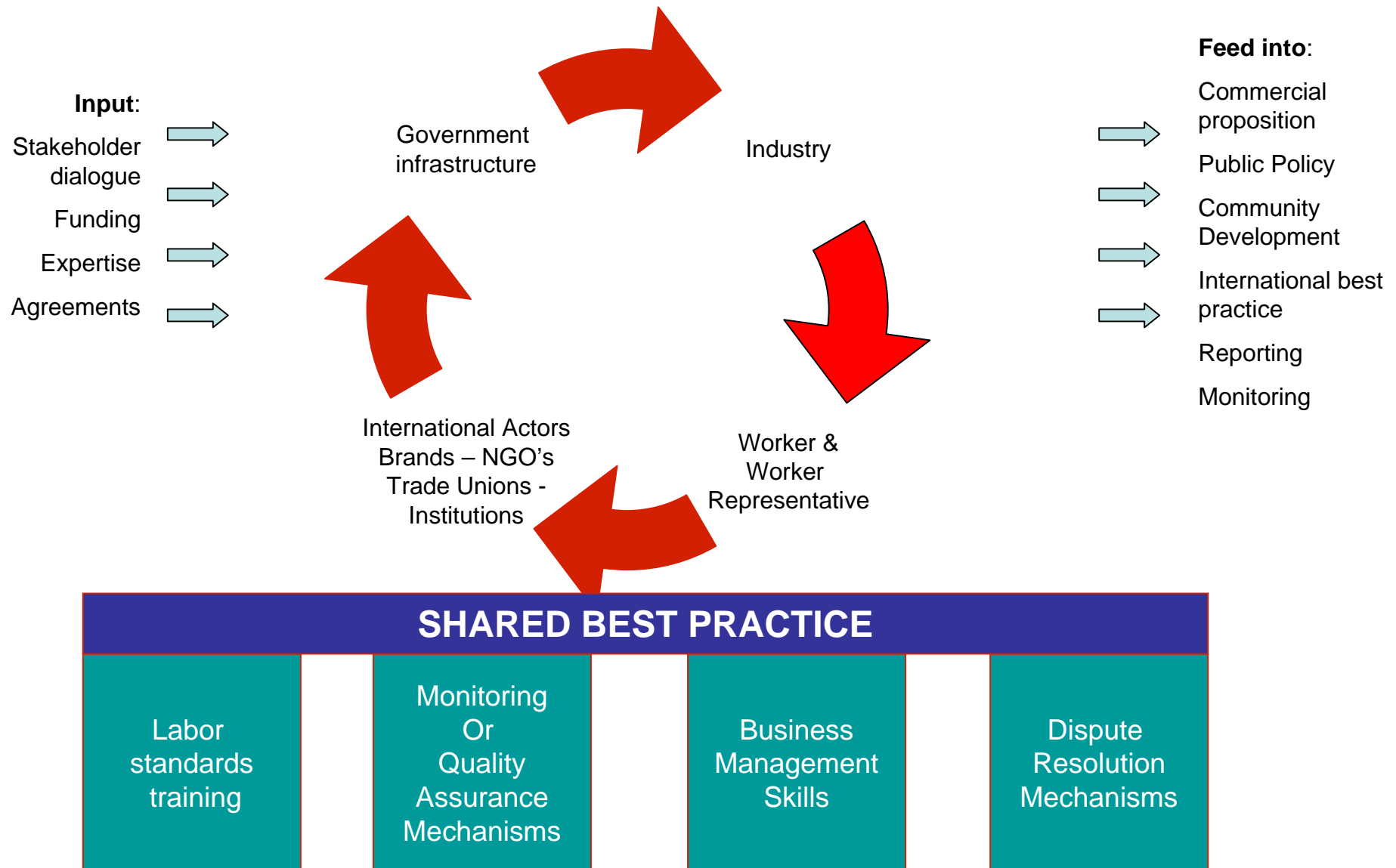
CURRENT ORDERS

FACTORY C:

BASELINE PERFORMANCE

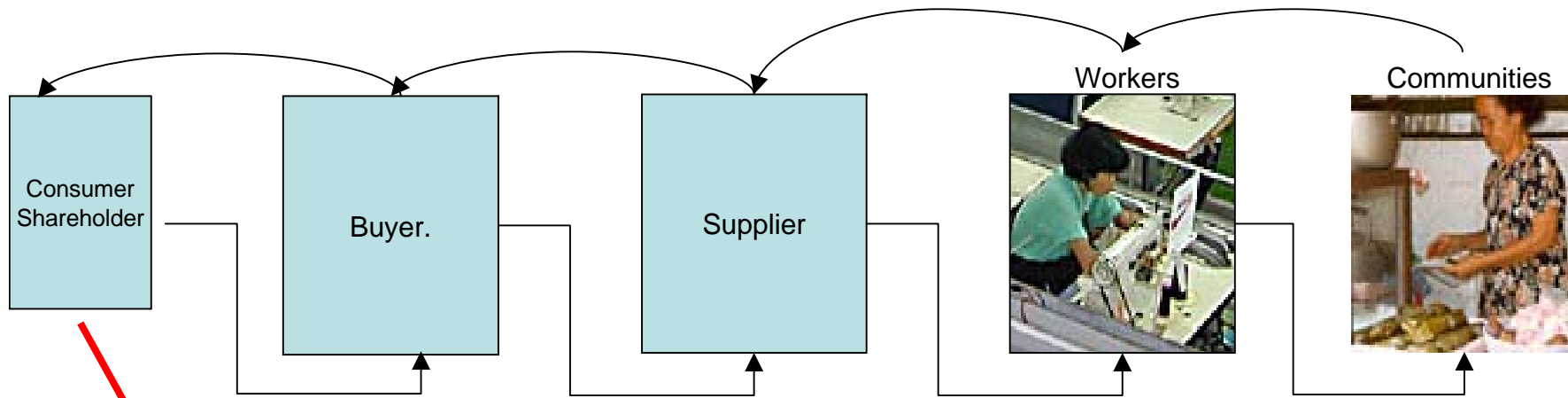
CURRENT ORDERS

# Building local/national capacity Cambodia Generation II?



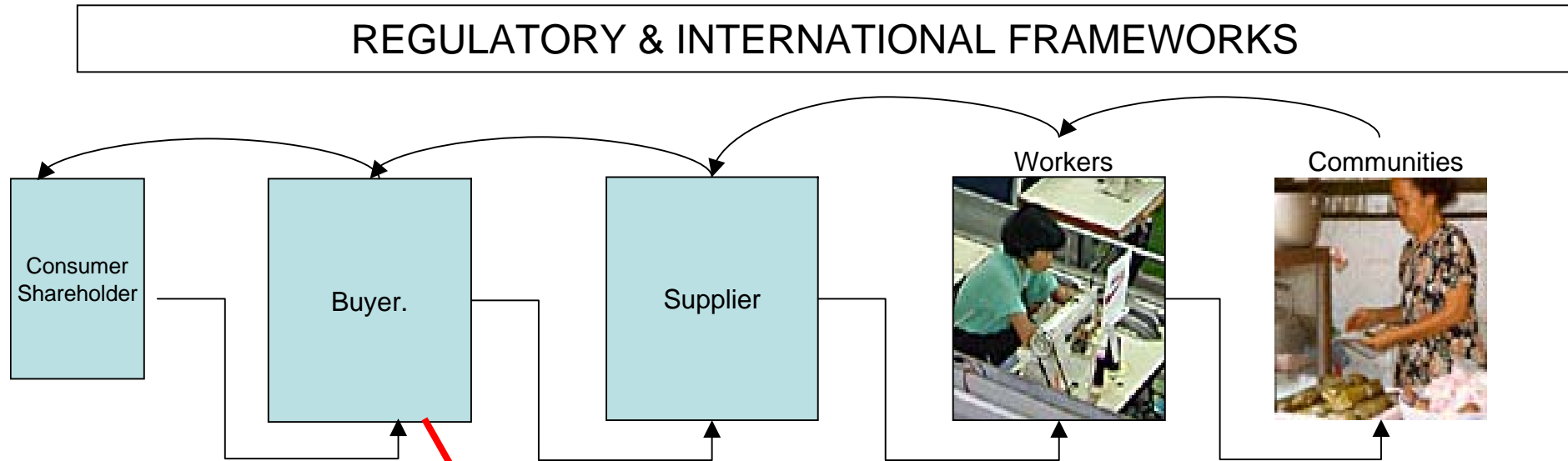
# Key positive triggers

REGULATORY & INTERNATIONAL FRAMEWORKS



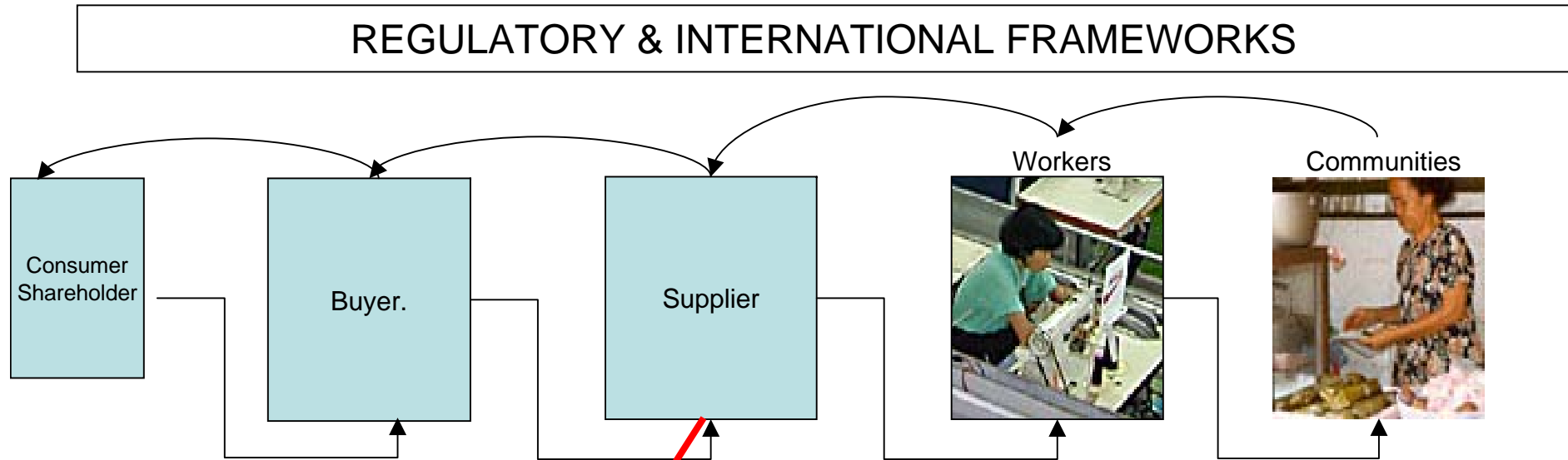
Mainstreaming of reporting would enable market forces to reward compliance investments

# Key positive triggers



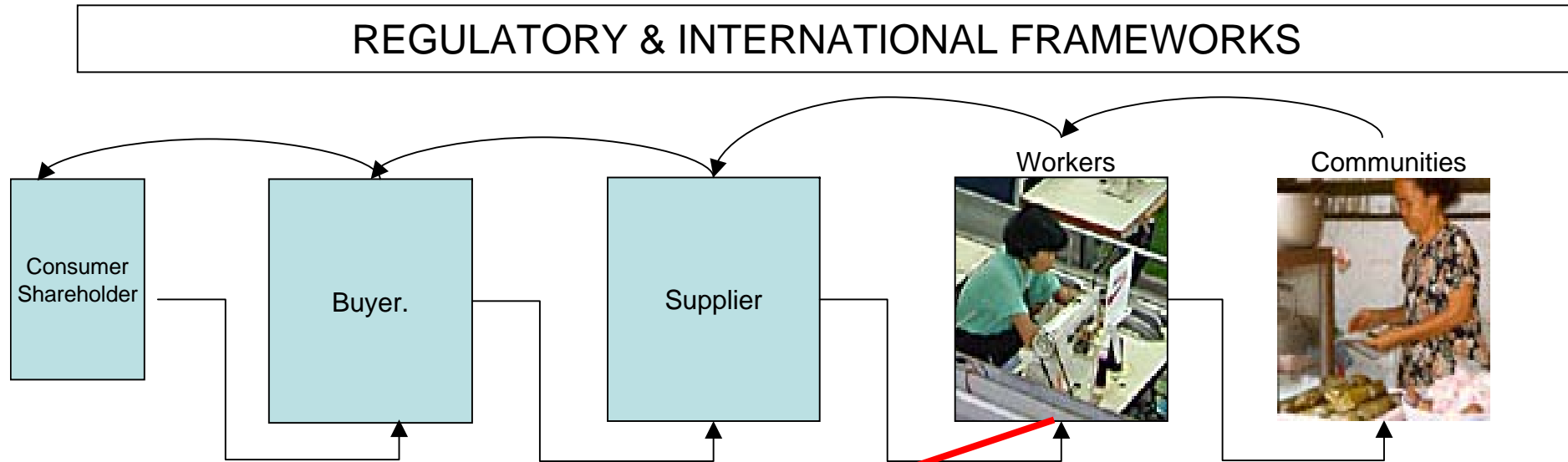
- Balanced Scorecards would enable incentive mechanisms for buyer sourcing teams and suppliers
- Shared monitoring of the industry would create efficiencies that make “price of entry” into monitoring accessible to more companies.
- Shared audits would lead to sharing of best practice

# Key positive triggers



- Shared monitoring would create efficiencies for suppliers
- Capacity-building would lead to better overall factory management
- Transparency would encourage country-wide approaches to policing and remediation programs such as the Cambodia-ILO model
- Transparency would enable participating suppliers to garner competitive advantage from the compliance investment made (in B2B conversations)

# Key positive triggers



- Local capacity building of workers, workers representatives would take on greater scale as local suppliers see value add in low turn-over, better skilled workforce and constructive industrial relations
- Workers rights would be reinforced through building of supplier HR and ER management capacity
- Local understanding of value-add of capacity building could facilitate ILO, government and others participation at a broader scale

## OUR FOCUS 00-04

### DEPTH

*BUILD IN-DEPTH MONITORING TOOLS THAT GET TO THE ISSUES*

### EXPAND

*GET AS GREAT COVERAGE OF MEDIUM – HIGH RISK ZONES AS POSSIBLE IN CHAIN*

### FACTORY SCORECARDS

*BUILD A GRADING SYSTEM AND SCORECARD TO BEGIN INCENTIVES/SANCTIONS PROGRAM*

### PARTNER

*SUPPORT MULTI-STAKEHOLDER COLLABORATION EFFORTS*

## OUR ROAD-MAP FOR 05-08

### FOCUS

*DRIVE PERFORMANCE IMPROVEMENTS AGAINST TOP ISSUES*

### OPTIMIZE

*SEEK MODELS LEADING TO EFFICIENCIES IN BEST OF CLASS MONITORING THAT MAINTAIN OUR COMMITMENT TO COVERAGE*

### ACCOUNTABILITY

*CREATE COMPLIANCE ENABLERS AND ACCOUNTABILITY MECHANISMS ACROSS THE GLOBAL SUPPLY CHAIN*

### SCALEABILITY

*SUPPORT STRATEGIC MULTI-STAKEHOLDER COLLABORATION EFFORTS THAT CAN LEAD TO SCALING UP ACROSS THE INDUSTRY*

# A journey travelled

