

ETI
Members

Briefing

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ETI Corporate Annual Reporting Guidelines 2006

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Purpose

The corporate annual reporting process is designed to:

- Identify what each company is doing to improve labour standards throughout those parts of its supply chain which are covered by its ETI membership.
- Investigate whether those efforts are succeeding in achieving sustainable improvements.
- Compare different approaches and outcomes in order to learn what works and to share that learning.
- Assist each corporate member to evaluate its own efforts and how they compare with those of other members.
- Reinforce members' commitment to transparency and public accountability.

The Reportbook

With these guidelines is an Excel Reportbook which sets out all the questions each company must answer and the data it must provide. The completed Reportbook will constitute the company's annual report.

Use of the Reportbook for reporting to ETI is mandatory. Some corporate members may wish to use the Reportbook to compile data during the year. Others will prefer to adapt their existing data management systems to collect the necessary information and then insert the data into the Reportbook at the end of the year.

Format of Reports

When more space is required for an answer in the Management section (M1 – M5) the row in which the answer is to be inserted can be reformatted so that it expands to allow sufficient space for the full answer (see IT Tech Notes). **Subject to that exception the format of the Reportbook must not be altered.** ETI's aggregation and analysis of company data requires every report to follow the same format.

The Reportbook is also available on CD-Rom from ETI Secretariat.

Terminology

Terms used in these guidelines which appear in red are explained in the relevant section of the text and the definitions are repeated in the Glossary section of these guidelines. Guidance on the meanings of terms which appear in red text in the Reportbook can also be obtained by clicking on the cell in which the text appears.

2006 Reportbook

The Reportbook has been revised in the light of the experience of using the new reporting framework for the 2005 Annual Reports. These guidelines draw attention to and explain the most important changes.

2005 Data

In many cases the company's answers to questions in the Management Indicators and the data in the Performance Input table will build upon or even be identical to its answers or data in its 2005 Reportbook. Accordingly, ETI will send to each member company who submitted a 2005 annual report a copy of the 2006 Reportbook into which ETI has cut and pasted the

relevant answers and data from that company's 2005 annual report. However, where the question in the 2006 Reportbook is new or is substantially different from the question in the 2005 Reportbook on which it is based, ETI will not paste the old answer into the 2006 Reportbook. These 2005 answers and data should be amended, updated or overwritten as appropriate so that when the 2006 Reportbook is submitted to ETI it represents a full and accurate account of the company's activities during 2006.

Incomplete Answers

2005 was a transitional year in which ETI introduced a new reporting framework and asked companies to begin providing data that ETI had not sought in previous years. ETI accepted that many companies would not be able to provide all the data sought in their 2005 reports. It was emphasised, however, that companies were expected to put in place the systems to enable them to provide all the data sought.

Accordingly, ETI expects the company to answer all the questions in the 2006 Reportbook and to provide complete data for the whole of 2006. The only exception to this requirement is where the 2006 Reportbook seeks data which was not requested in the 2005 Reportbook (e.g. categories of workers at supply sites –Columns T-X in the Input Table – see below)

If there are cases where a company is unable to answer a question it should give an explanation in the details/comments box for that question of why it has been unable to do so, the steps it is taking to overcome the problem and when it anticipates that it will be able to answer the question.

Deadline for 2006 Annual Report

The deadline for submission of the company's completed 2006 Reportbook is **Wednesday, 28 February 2007**. The deadline for the 2005 reports was put back to the end of March 2006 to allow companies more time to adapt to the new reporting framework in what was a transitional year. The deadline has now been reinstated to the end of February to allow sufficient time for the analysis by ETI of the reports and the provision of feedback to companies as early as possible during 2007.

Help

If the company has any questions about using the 2006 Reportbook it should contact Niaz Alam; niaz@eti.org.uk

Reportbook

When opening the Reportbook the macros must be enabled (see IT Tech Notes in Reportbook for details). The Reportbook is divided into a number of sheets. Some of these explain how the Reportbook is structured but the key elements the company is required to address are:-

Company Information – Basic information about the company, a brief narrative overview of the key messages the company draws from the report and its targets for the forthcoming years.

Management Indicators – Details of the company's efforts to improve labour standards in its supply chain. These are organised into sections M1 to M5 by reference to ETI's 5 Principles of Implementation

Assessment – The company is required to assess its own efforts by reference to the pictures in this section.

Performance Input – Data on production sites and levels of compliance with the ETI Base Code.

Improvement Actions – Details of what has been done to address breaches of the Base Code and the results.

Key Performance Indicators – The Reportbook will generate automatic analysis of the performance and improvement action data.

Comment - The company is asked to comment on changes compared with the previous year.

Blue Section

Protocols

This sheet of the Reportbook explains the general rules for using the Reportbook; such as where to input data; how to obtain guidance on the meaning of a term used or on how a question should be answered.



IT Tech Notes

An explanation of the software systems used by the Reportbook and of the need to enable macros to allow the tool to work properly. If in any doubt share this page with your IT department.

The notes also explain how to reformat rows in the Management Section to allow sufficient space for the full answer.

Company Information

Basic information about the company submitting the report.

Financials (D20-21)

If the company's financial year does not coincide with the calendar year it should give details of its turnover and trading profit for the financial year which ended during 2006.

Trading Profit (D21)

A small number of ETI corporate members are private companies which do not publish their financial results. If a company does not publicise its trading profit in any other way it is not obliged to do so in its ETI report. If, however, it seeks to argue that it is constrained by narrow profit margins it will be expected to substantiate that claim.

Employee Numbers (D22-23)

Answers should give the Full Time Equivalent (FTE) numbers of permanent and temporary employees. This means that part-time, temporary and seasonal workers should be counted as the appropriate fraction of a full time worker who is employed throughout the year. For example, someone who works 2 full days out of a 5 day week should be counted as 0.4 and someone who works full time but only for 3 months each year should be counted as 0.25.

Sharing Company Reports (B27)

Each company report will be made available on a confidential basis to other corporate, trade union and NGO members of ETI.

ETI will analyse all the reports in order to develop a picture of the performance of the corporate membership, both individually and as a whole, identify trends and compare different approaches and their outcomes.

ETI's evaluation of the performance of individual companies will be shared with that company and, on a confidential basis, with the members of the ETI Board, the ETI Secretariat and any consultants engaged by ETI to assist with that evaluation.

Anonymous information about the performance of all of ETI's corporate members will be made available to the public.

The company information includes a consent for the purposes of the Data Protection Act to the information contained in the company's report being used in this way.

The Reportbook also asks (B26) whether the company will make its report to ETI available to the general public.

CEO Sign Off

As in previous years, ETI requires the company's Chief Executive Officer or other main Board member to sign a letter endorsing the report.

Overview (B41)

This is a new section in Company Information. The company should provide a summary of the key messages it considers should be drawn from its report. The target length for this summary is 250-300 words and it should not exceed 600 words.

This overview will provide the context against which the detailed information in the report should be understood. In addition the company may wish to use the Overview (and the following sections on Challenges and Lessons and on Targets) for communicating its key messages internally.

Challenges and Lessons Learned (B44-47)

This new section provides an opportunity for the company to provide feedback to ETI and to identify the key challenges the company faces in the next 3 years.

Targets (B49-78)

The company is required to:

- Report on progress towards achieving the objectives for 2006 which were specified in the 2005 report.
- Propose three measurable objectives to be achieved by the end of each of the 3 following years 2007, 2008 and 2009.

The targets for 2008 and 2009 may be an extension of targets for earlier years or new objectives intended to replace earlier ones as they are attained.

When submitting its annual report in subsequent years the company may, in the light of experience, wish to propose changes to the targets which have previously been agreed for the next two years as well as a new target for the third year.

New targets and any amendments to existing targets must be agreed by the company and ETI. When providing feedback on the annual report ETI may suggest changes to the targets proposed by the company.

A company's readiness to accept challenging targets and its performance against those targets will be taken into account in the Self Assessment and the ETI Assessment of the company's efforts (see below).

Workings

This sheet is not compulsory and has only been provided to assist with some of the subsequent calculations. There is also a scrap pad for your workings.

Yellow Section

Management Indicators (M1-M5)

This section is concerned with how the company goes about achieving ethical standards in its supply chain. It provides an opportunity to report on the resources and commitment applied to the task; the management systems used and the activities undertaken.

ETI does not seek to lay down how each corporate member should address ethical trading. Each company should use the Reportbook to describe its approach and to explain why it considers that approach to be most effective for improving labour standards within its supply chain. The Management Indicators are designed to allow companies to describe a range of different approaches and ETI does not expect any one member to use all the potential approaches referred to.

Each company is required to provide data for a comprehensive set of indicators relating to its activities. These indicators are organised on five separate sheets of the Reportbook by reference to ETI's five principles of implementation:

M1. Commitment

M2. Monitoring, Verification and Reporting.

M3. Awareness Raising and Training.

M4. Corrective Actions.

M5. Management Procedures, Pricing and Incentives.

In order to give more space and prominence to reports on project work and other initiatives on which companies are engaged this topic appears as a separate sheet, M4(i). This will enable companies to report on every initiative which is designed to address root causes of problems and/or to test different approaches to achieving sustainable change. The balance of the indicators relating to M4 Corrective Actions appear on sheet M4(ii).

2006 Data

Questions should be answered by reference to the company's activities during 2006. Data relating to activities in earlier or subsequent years should not be included (except when answering M4.1 when the company may wish to report on ongoing projects and initiatives which have commenced in an earlier year).

Details/Comments

The structured format means that many questions can be answered Yes or No or by inserting numbers or percentages when appropriate. The company should also explain its answers in the details/comments box. This section of each question should be used to give an explanation of and/or to comment upon the company's answer. It is important to use this opportunity to share the company's views on why the approach in question is or is not effective and to explain when the company deals with the issue in another manner which has not been anticipated in the question.

Additional Space

If an answer requires more space than is provided in the details/comments box the company can do one of the following:

- a) Insert the full answer in the cell provided. The full answer will be captured and displayed on screen but if it overruns the designated cell it will be lost when the document is printed.
- b) Type "see continuation sheet" in the details/comments box and then insert the question number and the full comment in the Continuation Sheet which appears in the Reportbook after sheet M5.
- c) Reformat the row (see IT Tech Notes) so that the row expands to show the full text of the answer. If this alternative is adopted it may be necessary to adjust the page breaks within the "print preview" panel before printing a hard copy.

Changes/Lessons from 2005 Reportbook

M1 Commitment

1.3 (B35) This year, in addition to the organisational diagram, companies are being asked to describe how key individuals fit into the company's reporting and decision making structures.

1.6 (B60) This question now asks companies to report the numbers of staff who spend at least 5% of their time on ethical trade. Previously the threshold was 10%.

1.6 (C/D59-60) These questions (about staff who devote at least 30% or 5% of their time to ethical trade) ask for actual numbers as well as **full time equivalent** numbers. Someone who works 2 full days each 5 day week exclusively on ethical trade and someone who works full time but spends 40% of that time on ethical trade should each be counted as equivalent to 0.4 of a full time worker.

1.6 (B65, B67, B69-70, B71-72) These questions have been reworded and additional guidance provided to make clearer precisely which types of expenditure should be reported in respect of each question.

When calculating **budgeted expenditure** and actual expenditure the company should count all direct expenditure devoted to improving labour standards in the supply chain including staff and travel costs and payments to third parties. Where staff devote part of their time to these issues an appropriate fraction of their costs should be included. Reductions in margins in order to support certain goods should not be counted because that is not expenditure. Marketing costs related to publicising the company's work in this area should not be counted and nor should indirect costs such as premises and share of overheads. Work on improving labour standards may include work on issues which are not covered by the ETI Base Code but wider community work e.g. supporting educational, social or rehabilitation projects, should not be counted as expenditure on ethical trading.

M2 Monitoring, Independent Verification and Reporting

2.2 and 2.3 (B16, 23 and 24) Companies have had difficulty understanding the distinction between first and second tier suppliers. The definitions of the tiers of supplier (see glossary at the end of these guidelines) have been expanded to deal with some of the issues which have caused confusion.

2.3 (B24) The request for the number of second and third tier suppliers has been dropped (because companies will not have this information). Instead the question seeks details of the extent of engagement with second and lower tier suppliers.

2.4 (B26) This question has been reworded to make clear that the company should explain how and why it prioritises different risk factors. The details box provides for a single narrative answer instead of separate details in respect of each risk factor.

2.7 (B64) Guidance has been inserted to make clear that this question relates both to inspections carried out by the company's own staff and also to inspections carried out on its behalf by third parties. The question has also been reworded to acknowledge that the company may not know how often each technique is used and to encourage more explanation of the company's answer.

2.8 (B87) This question (about which categories of workers are covered by the inspection methodology) now includes smallholders as one of the categories.

2.9 (B91) The question about the maximum length of time between inspections has been rewritten to clarify the information required and to emphasise that if the company does

not use separate risk categories it should, when answering this question, treat all suppliers as being in risk category 1.

2.10 (B100) Guidance has been inserted to explain that for an inspection to be independently “verified” requires a process by which a third party who is independent of the body who carried out the inspection and of the supplier being inspected checks whether the outcome of the inspection matches that third party’s assessment of labour standards at the site. A new category has been included for verification by the company’s own staff of inspections by other parties.

2.12 (B125-129) This question has been reworded to clarify the information sought.

M3 Awareness Raising and Training

3.2 (B13) The 2005 Reportbook had not drawn a clear distinction between “guidance” and “training” for suppliers. Guidance on code implementation may be given by document, telephone, web or in person but the company should not count dedicated training sessions which are covered by M3.3. This question has been partially reworded to reflect this distinction.

3.3 (B25) When reporting what training has been provided for suppliers on improving labour standards the company should only count prearranged sessions which are dedicated to face to face teaching.

3.5 (C48-57) In their 2005 reports some companies failed to appreciate that this question not only seeks details of the approximate numbers of staff receiving training but also the total number of person hours involved. Person hours is calculated by multiplying the length of the training course(s) by the number of staff present, e.g. if 15 people attend a 3 hour course the total number of person hours will be 45.

In a new part of this question the company is asked to explain its priorities for internal training and to share its views on which methods are most effective.

M4(i) Corrective Actions – Initiatives

4.1 (B4) (M4.6 in the 2005 Reportbook). An important aspect of the efforts of member companies to improve labour standards is the **initiatives** they engage in to identify root causes of problems and/or to test different approaches to achieving sustainable change. The company should report all such projects and initiatives. This should include any relevant ETI projects and working groups in which the company is engaged (and which will have been mentioned in the company’s answer to M1.2). The company should not include in this answer work which is designed to remedy problems at a particular site or sites unless that project is also designed to generate wider learning.

This sheet provides space for companies to report up to 20 projects and other initiatives. ETI does not anticipate that companies will have this many activities to report but the 2006 Reportbook has been designed to allow sufficient space to enable companies to report in as much detail as they wish.

M4(ii) Corrective Actions

4.3 (B6) (M4.2 in the 2005 Reportbook). This question has been reworded to seek more detail on how companies initiate corrective actions and to include, as one of the possible

methods, sharing details of the required actions with the trade union or other workers' representatives.

4.4 (B19) (M4.3 in the 2005 Reportbook). This question has been reworded to seek more detailed explanation of the company's approach to following up corrective actions and to include checking with trade union or other workers representatives as one of the methods.

4.5 (B30) This is a new question. The company is asked to describe its strategies for addressing the working conditions of any homeworkers and/or smallholders and their employees in its supply chain and to state whether it is following the ETI Smallholder and the ETI Homeworker guidelines (which can be found on the ETI website).

4.6 (B35) (M4.4 in the 2005 Reportbook). In this question on who is responsible for following up corrective actions the category of "other people" in the 2005 Reportbook has been divided into "other staff" and "third parties".

4.7 (B43) (M4.5 in the 2005 Reportbook). This question seeks information about the number of supplier relationships terminated principally because of breaches of the ETI Base Code. If the primary reason a company terminated a relationship with a supplier was for commercial reasons it should not be counted.

M5 Management Procedures, Pricing and Incentives

5.1 (B13) This question, which is about stability of relations with suppliers, no longer asks about purchases through e-auctions (because this technique can be used with existing suppliers as well as potential new ones and is not, therefore, an indicator of stability).

5.3 (B22) This question, on minimum standards required of new suppliers, has been reworded to seek more explanation of the circumstances in which different approaches are used. In addition, the option of requiring new suppliers to meet the same standards as existing suppliers has been inserted in this question and removed from M5.4.

5.4 (B31) This question has been reworded to seek an explanation of the circumstances in which different methods are used to assess potential new suppliers.

5.6 (B45) This new question asks the company to describe how it ensures that labour standards are maintained or improved when it uses; spot buying; competitive tendering or re-tendering; or short term (less than 6 months) contracts.

5.7 (B51) (M5.6 in the 2005 Reportbook). This question asks the company to describe what mechanisms, if any, it has for rewarding suppliers who have good labour standards or who are prepared to invest to improve labour standards. It seeks a single narrative answer in place of answers to 5 sub questions.

5.8 (B54) (M5.7 in the 2005 Reportbook). This question about when the company agrees prices with its suppliers has been re-worded to ask the company to answer in narrative form.

5.9 (B61) (M5.8 in the 2005 Reportbook). This question has been re-worded to ask the company to describe in narrative form the circumstances in which suppliers are asked to make a contribution to offset loss of margins or sales volumes.

5.10 (B64) (M5.9 and 5.10 in the 2005 Reportbook). This question on the critical path has also been re-worded to seek a narrative answer.

5.11 (B67) Again this question has been re-worded to ask for a narrative account of what the company is doing to improve critical path planning and demand forecasting.

Self-Assessment

After completing all the other sections of the report (including the Comment sheet at the end of the Performance section - see below) the company should assess its own management activities by marking itself as a beginner, improver, achiever or leader for each of the five principles of implementation. It should assess its performance by reference to the pen pictures for that principle.

The Reportbook contains pen pictures for each of the five ETI principles of implementation. These pen pictures describe what is required for a corporate member of ETI to be a beginner, improver, achiever or leader in each of these areas.

The pen pictures illustrate ETI's vision of how companies should go about addressing ethical trading. As ETI's learning develops so will the pen pictures.

Each pen picture is subdivided into rows for different aspects of that principle. For example the first principle, Commitment, is divided into Endorsement and Advocacy; ETI Participation; Senior Responsibility; Internal Communication; Resources; and (new in the 2006 Reportbook) Setting Targets. The company should assess itself as a beginner, improver, achiever or leader against each of these rows and should then make an overall assessment of its management progress against that principle as a whole.

The levels of "beginner", "improver", "achiever" and "leader" are cumulative. An achiever will have dealt with the issues described in the pen pictures in that row for beginners and improvers well as the issues identified in the cell relating to an achiever.

The overall self assessment against each principle should take account of the how the company has assessed its efforts against each of the rows within that principle.

A company should only check (mark with an X) one cell on each row.

Changes from 2005 Reportbook

Principle 1: Commitment A new row, Setting Targets, has been inserted in this pen picture to reflect the company's efforts in setting in its annual reports to ETI and achieving demanding 3 year targets.

ETI Assessment

After it has reviewed the annual reports from all its corporate members ETI will make its own assessment of each company's progress against each of the five principles. This assessment will take account of the company's management indicators, its readiness to accept challenging

targets and its performance against those targets as compared with that of other member companies.

Site Audits Some companies seem to believe that when assessing corporate members' progress ETI will attach overriding importance to the level and quality of the company's monitoring/auditing of production sites. That is not the case. There are 5 principles of implementation against which each company is assessed and only one of them, principle 2, assesses the company's site monitoring (along with other issues such as verification, data management and public reporting). The other 4 principles of implementation take no account of the company's monitoring programme.

This assessment will form part of ETI's feedback to the company on its annual report. Each company will receive a rating of 1-4 (Beginner = 1, Improver = 2, Achiever = 3 and Leader = 4) for each of the five principles of implementation. The feedback from ETI will show how these ratings compare with the company's self-assessment, its previous year's rating and with those of other ETI member companies.

Green Section

Performance Input

Introduction The ETI is not asking member companies to risk assess and/or inspect every production site each year. It is for each company to decide how much of its resources should be put into its monitoring programme. This table is designed to capture the information that is available in order to build up a picture of each company's supply chain and what progress is being made in improving labour standards.

Site Entries An entry should be provided for each production site which has been risk assessed or inspected against the ETI Base Code since the ETI's new reporting framework was introduced in 2005.

Data from the 2005 Annual Report should be carried over and updated where appropriate to take account of inspections or risk assessments of those sites during 2006.

New entries should be provided for sites assessed and/or inspected during 2006 which were not in the 2005 Reportbook.

Site entries should only be removed if the company has ceased to trade with the site.

A production site is a site where goods are produced or transformed (e.g. packaged) in some way.

If a company purchases from an agent the **risk assessment** or **inspection** will relate to the production site(s) of the supplier(s) who supplied the agent.

The following notes (numbered by reference to the columns in the Reportbook) explain the information required:

[B] and [D]. Supplier and Site References

These references should be unique to the supplier or site concerned and the same reference should be used for that supplier/site in all future reports. A reference that has been used for a lapsed or deleted supplier/site should not be reassigned.

[E]. ETI Site Reference

This column will be completed automatically once the company has entered its name in the Company Information Sheet and the site reference in column D. The Reportbook will generate an ETI site reference consisting of a prefix unique to that company and the site reference from column D.



If a company sources goods from another ETI corporate member it would be helpful if it used as its site reference for the production site the ETI site reference used by that other ETI member.

[C] and [F]. Name of Supplier and Site

The Reportbook includes columns in which corporate members can, if they wish, insert the supplier and site name (and other information) for their own ease of reference and internal use. This information can then be hidden and password protected or deleted before the completed Reportbook is submitted to ETI.

[H] Year First Reported in ETI Reportbook

This new column records the year of the annual report in which details of the site were first reported to ETI under the new reporting framework. This will enable ETI to analyse data relating to the same sites over, say, a three year period to identify what progress has been made in improving labour standards.

[I]. Tier of Supplier

1 = First tier = A production site at which the goods are finished ready for supply to or sale by the member company. If the company is a retailer the first tier supplier will usually be where the goods are packed and labelled. An agent who buys and sells product but who does not transform it in any way (e.g. by packaging) should not be counted as a tier. If goods are bought through an agent the first tier will be the production site from which the agent sourced the goods.

The same site may be a first tier supplier to one ETI member (e.g. a food supplier "S" who sorts, packs or labels the produce or a retailer "R1" who sources direct from that site) and a second tier supplier to another ETI member (e.g. a food retailer, "R2", who obtains the produce from supplier S).

2 = Second tier = A production site which supplies goods or materials to a first tier site for incorporation into the finished product. A first tier site which produces garments may have a range of different types of second tier supplier such as suppliers of cloth, threads and fasteners and subcontractors who carry out finishing processes such as embroidery.

3 = Third tier or lower. A third tier site is a production site which supplies goods or materials to a second tier site for incorporation in goods or materials that site supplies to a first tier site.

[K]. Sector

Choose from the drop-down list one of:

- Accessories
- Cosmetics
- Electronics
- Food and Fresh Produce
- Footwear
- Furniture
- Garments
- Homeware
- Non-Sellable Product (e.g. hangers, plastic bags)
- Toys
- Other

[L]. Length of Relationship in Years

If the supplier has been used intermittently but with an expectation that further orders will be placed within twelve months the relationship should be considered continuous i.e. count from the date the relationship first began.

[M]. Share of Total Production

The corporate member's estimate of the value of its business with that site expressed as a percentage of the total value of that site's production. This data provides an indicator of the likely level of influence that the company will have with the site management. In addition, this data is used to calculate the number of **workers in the supply chain** – the total number of workers at each site multiplied by the company's share of production (using the mid point from the relevant range) from that site. The number of workers in the supply chain is used for calculating many of the KPIs (see below).

[O] FTE Number of Workers

The company should give an estimate of the total number of workers at the site throughout the year. Part time, temporary, seasonal and agency workers should be counted as the appropriate fraction of a permanent full time worker. E.g. a worker who works half time and a seasonal worker who works for 6 months of the year should each be counted as 0.5. This information is needed to calculate the KPIs.

[R]. % of workforce covered by negotiations by a Trade Union

The percentage of the total number of workers at the site covered by **collective bargaining** with one or more **recognised trade unions**.

In their 2005 reports some companies treated this as a request for an estimate of the number of trade union members at the site. That is not the information required. There is no need to make enquiries about whether individuals are or are not trade union members.

The company should report the total number of workers for whom at least some of their wages and/or their other terms and conditions of work are collectively bargained by a trade union or trade unions. Typically a trade union which is recognised for a section of the

workforce may bargain for all the workers in that section even though some of the workers in that section may not be members of that union. If a trade union represents workers on other matters such as grievances, welfare, health or safety concerns but does not bargain any of their terms and conditions of work they should not be counted.

[S]. % of workforce covered by negotiations by non-trade union representatives

The percentage of the total number of workers at the site covered by negotiation with **workers' representatives who are not representatives of one or more recognised trade unions.** Count all workers for whom at least some of their wages and/or their other terms and conditions of work are negotiated in this way. Do not count workers who are represented on other matters (e.g. grievances, welfare, health or safety) unless the representatives also negotiate at least some of those workers terms and conditions of work.

[T-X] Categories of Workers- Regular; Temporary/Seasonal; Agency; Subcontractors/Smallholders; and Homeworkers/Outworkers.

These data fields are an important indicator of potential problems. They are new for the 2006 Reportbook and ETI recognises that many companies may not have systems in place to capture this information and it may take them a little time before they are able to begin to collect this data.

The company should indicate whether it considers that there are workers in each of these categories who are connected with production at this site either because they work at the site or because they work off site but play a direct part in the production of the goods or produce concerned. The company should answer Yes, No or Don't Know for each category or, if it is able to do so, insert a number which represents its estimate of the number of such workers in that category.

[Y]. Risk Category

The risk category in which the company places this site – using the risk categories in the company's answer to M2.5. It is necessary to complete M2.5 or the relevant section under Workings before making entries in this column. The risk categories that the company uses will then appear in the drop down menu.

[AA]. Type of Risk Assessment

A **risk assessment** is a method of identifying and assessing risks in the company's supply chain. Typically it is based on either generic data, questionnaire information from the supplier or short site visits. The results give some initial idea of a site's status but they do not have equal weight as the results of a site **inspection**.

There are three categories of **risk assessment** to select from:

X. Desk Based – assessment does not include a site visit.

Y. Short Visit – assessment includes a site visit which does **not** follow ETI methodology for one day risk assessment.

Z. One Day Risk Assessment – assessment includes a site visit which complies with ETI methodology for one day risk assessment.

[AB]. Major Breach Identified?

If following a **risk assessment** the company has identified a major breach of the ETI base code (e.g. use of child labour or excessive working hours) it should answer Yes to this question and insert a rating of "1" in the relevant column AG-AO for that element of the base code (but the

company should not insert ratings for other elements of the base code or otherwise change existing ratings based on previous inspections. The company should then provide details of the improvement actions that have been implemented to remedy that breach in the relevant Improvement Action Table – Provision 1 to Provision 9 (e.g. P4 for child labour or P6 for excessive working hours).

[AD]. Type of Inspection

An **inspection** must be against the standards set out in ETI base code. Corporate members should not include data relating to inspections against any other code or standard.

An inspection is a method of assessing the extent of a site's code compliance which includes a presence on site of sufficient duration and unobstructed access to all relevant facilities to carry out an audit. It can be carried out by internal staff from the company, by staff from one of its suppliers inspecting a site of one of that supplier's own (lower tier) suppliers or by external third parties (commercial or non-profit).

There are seven main categories of **inspection** to select from;

- A. Internal Limited Inspection - A member of the company's staff conducts an **inspection** limited to a focus on specific issues or provisions.
- B. Supplier Limited Inspection - A member of the staff of one of the company's suppliers has conducted an **inspection** of a site of a lower tier supplier limited to a focus on specific issues or provisions.
- C. External Limited Inspection - An external assessor conducts a limited **inspection** focussed on specific issues.
- D. Internal Full Scale Inspection - A thorough **inspection** of the labour standards at a supplier's site against the full code by a fully trained member (or members) of the company's staff.
- E. Supplier Full Scale Inspection - A fully trained member of staff of one of the company's suppliers has conducted a thorough **inspection** of the labour standards at a site of a lower tier supplier against the full base code.
- F. External Full Scale Inspection - A thorough **inspection** of the labour standards of a site against the full code by an external assessor (commercial or non-profit).
- G. Full Multi-Stakeholder Inspection - 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 and results.

A **self-inspection** is an inspection in which one or more members of a corporate member's staff inspects one of its own production sites or a supplier's member(s) of staff inspects one of that supplier's sites.

A self-inspection should only be treated as an inspection if;

- (a) the inspector(s) carrying out the inspection have been properly trained and use appropriate methodology;
- (b) the inspectors are not based at the site being inspected; and
- (c) the inspectors are independent of and are not answerable to site management.

If a self-inspection does not fulfil each of these conditions it should be treated as a risk assessment and not as an inspection.

If an inspection involves a self-inspection by a company's own staff the appropriate category relating to internal inspections should be marked with an asterisk i.e. A* or D*.

Similarly, if an inspection involves a self-inspection by a supplier's own staff the appropriate category for supplier inspections should be marked with an asterisk i.e. B* or E*.

[AE]. Was Inspection Announced?

An inspection was announced if the site was warned in advance that an inspection was going to be carried out. A general statement that the company reserves the right to carry out inspections without notice does not constitute an announced inspection.

[AG] to [AO]. Current Inspection Rating against Base Code

Ratings should be based on the most recent inspection that has taken place against that element of ETI Base Code. If a company carries out several inspections in the same year it should report on the most recent inspection rating for that element of the Base Code. If there was an inspection during 2005 but there has not been a further inspection during 2006 the company should continue to report the 2005 rating.

In some cases a company may have carried out an inspection against all the elements of the Base Code and identified a problem relating to one element e.g. 6. Working Hours. The company may then have conducted a subsequent limited inspection which was confined to checking whether the problem relating to working hours had been rectified. In this example the company should insert a rating for 6. Working Hours based on the most recent limited inspection and ratings for all the other elements of the Base Code based on the earlier full inspection.

Sites which have been risk assessed but have not been inspected should not be rated unless that risk assessment identified a major breach (see guidance notes above re [AB] *Major Breach Identified?*).

Sites which have been inspected should be rated for compliance with each of the nine elements of the base code using the following scale:

No data – The **inspection** did not cover this aspect of the base code. Leave the cell blank or showing a rating based on a previous inspection which did cover this area .

1. **Major breaches** - A **major breach** may be a **systematic breach** and/or a **serious breach** of the base code.

A **systematic breach** is a problem which is institutionalised in the supplier's systems. **Systematic breaches** are found when the 'normal way of doing things' contravenes one of the base code provisions or is insufficiently robust to prevent contraventions. Some examples of systematic breaches include routine use of bonded labour, management prohibition of union membership, inadequate arrangements for provision of protective clothing, no proper checks on ages of young workers, etc. **Systematic breaches** will generally require a new investment or change to management practice (not something which is simply the enforcement of an existing practice).

A **serious breach** may occur only very occasionally but it will be serious if it could have serious consequences for workers' health e.g. the removal of a safety guard

from machinery, or it infringes on basic rights e.g. physical punishments of workers or victimisation of a union representative.

A **serious breach** may also be systematic (e.g. it may require more robust systems in place to ensure workers do not and are not under pressure to remove safety guards in order to increase productivity).

2. **Minor Breaches** - A **minor breach** of the base code occurs when there is a failure in a system which is generally in line with the base code. It is an isolated or occasional 'mistake' which indicates that, while the general system is acceptable, the enforcing or policing of the system should be improved. Some examples of **minor breaches** are; generally good health and safety systems but the **inspection** found that some fire extinguishers were missing or some training was overdue; a policy stating an appropriate maximum number of overtime hours and a system for managing this but **inspection** discovered that there were occasional cases when more than the maximum number of overtime hours were worked; a management system which ensures that all workers carrying out permanent jobs are given permanent contracts but there are occasional instances where this has been overlooked or where a worker was moved from a seasonal job to a permanent job and has yet to receive a permanent contract.

3. **Appears Compliant** - This round of **inspection** found no evidence of a breach. However the site has not been inspected before, is not well known to the company and/or has not been involved with other independent third party organisations. The company has no cause for concern, but does not have total assurance.

4. **Consistently Compliant** - No evidence of breaches have been found by more than one successive **inspection** or audit. The site may have worked with the company over several years to implement changes or may have been audited by different organisations to cross-check the results.

Improvement Action Tables P1 –P9

These tables are to be used by the company to report all improvement actions undertaken during 2006 on each site where a major breach has been identified. This includes sites where the breach was identified in earlier years but was not resolved in that year.

There are separate tables for each element of the Base Code.

An **improvement action** is an action which makes a significant change in the conditions at the site. Requests to a supplier to address an issue or arranging further **inspections** are **not improvement actions**. General training on the requirements of the base code or the company's reporting requirements will not constitute an **improvement action** but training designed to address a specific problem in the workplace (e.g. how to operate non-discriminatory hiring and promotion) may be an appropriate **improvement action**.

A company should only report on **improvement actions undertaken** during the year under report. If an **improvement action** is relevant to breaches of more than one element of the base code the company should choose the provision to which it considers the action was most directly related.

The Reportbook will automatically show for each site the current inspection rating for that element of the base code. Where the rating is “1” (signifying a major breach) the company should enter details of the improvement actions that have been implemented.

Even where the current inspection rating is “2” or above there may have been a major breach giving rise to improvement actions earlier in the year. This could arise as a result of a risk assessment or an earlier inspection in the same year or an inspection prior to 2006. Companies should enter details of all such improvement actions.

A site where a **major breach** has been identified in earlier years should continue to be included in the Improvement Action Table of future annual reports until the problems giving rise to the risk of further **major breaches** have been resolved or when the relationship has ceased to exist.

[I-Y] Issues for Improvement Actions

Each improvement action should be classified by reference to the issue it is intended to remedy using the categories set out in the sub-table at I 2-20 of each of the sheets P1 to P9. These categories are new for the 2006 Reportbook.

The table includes a separate column for each of the categories of issues for improvement action for that element of the Base Code. The company should enter the number of improvement actions at that site during the year which address that category of issue.

For example, in table P3 “Working conditions are safe and hygienic” there are 14 columns numbered 1 to 14. If the improvement action consisted of reinstating a safety guard on a machine the company should enter 1 in column 6 “Machine safety”. If the same action was required on a number of machines this should still be counted as a single improvement action. If, however, three separate measures have been implemented which relate to machine safety on three different machines (e.g. Reinstating a safety guard, Installing safe electrical wiring and Repairing alarms for dangerous machinery) the company should enter 3 in column 3.6.

This new provision enables companies to report all improvement actions at each site whilst limiting the volumes of data that have to be provided. The sub-table will then show the total number of improvement actions designed to remedy each category of issue and the total number of sites at which this issue has required action

[X] Details

When the improvement action falls under the category of “Other” the company should use the Details column to describe the improvement action.

The Details column can also be used to draw attention to any issue or improvement action which the company considers of particular significance.

[Y] Results of Actions – Is problem resolved?

If some improvement actions have been resolved but others are outstanding the company should answer No in this column and use the “If not resolved why not?” column to explain.

Performance Analysis – Spider and Key Performance Indicators (KPIs)

When the Performance Input and Improvement Action tables have been completed the Reportbook will automatically generate analysis of the data contained therein. This will

enable ETI to compile data for different sectors and the membership as a whole and to compare the data from different years.

Spider

Once the Input table has been completed this sheet will show the average rating for each provision of the Base Code weighted to take into account the number of workers at these sites.

The table shows two sets of figures. “**Workers in supply chain**” is weighted by the number of workers at each site multiplied by the company’s share of production at that site. “Workers at supplier sites” is weighted by the total number of workers at each site. Generally ETI considers that the weighting by workers in the supply chain is more useful but there may be circumstances in which it is helpful to look at the total numbers of workers at supplier sites.

This data is shown graphically in the spider diagram at the foot of the page. The company can select which of the two data sets it would like to see on the chart. In addition the company can add additional data sets, such as sectoral data (which ETI should be able to provide), or its own figures from previous years.

This analysis may help to identify which elements of the Base Code pose the greatest challenge. In addition, comparisons with data from previous years will show what progress is being made in improving labour standards. The company’s ratings can also be compared with a sectoral average. However, comparisons with sectoral averages should be treated with care as there is a degree of subjectivity in applying the 1-4 rating and different companies are not directly comparable.

KPIs

This sheet shows summary data extracted from the Performance Input table. To make the tables easier to understand the 2006 Reportbook includes a brief description of the data shown by each table.

These tables include:

[I 13 and 14] Workers	The numbers of workers (both workers in supply chain and total workers) covered by trade union or non trade union bargaining.
[K and L 21-27] Length of Relationship	The length of the company’s relationship with sites analysed by the number of sites and the number of workers in the supply chain.
[K-M 39-43] Share of Production	The number of sites and the number of workers at those sites (both workers in the supply chain and total workers) broken down by the share the company takes of the total production from that site.
[A-L 53-134] Distribution by Site Rating	Instead of looking at simple average site ratings (as in the Spider sheet) these tables show what 5 of sites and what 5 of workers in the supply chain scored each of the ratings for each of the 9 elements of the Base Code.
[A-J 147] Supplier Countries and Sectors	These tables analyse the number of sites and the number of workers in the supply chain in each supplier country and sector.

KPIs (pt2)

This sheet analyses data from the Input table and the Improvement Action tables for each of the 9 elements of the Base Code.

The first table shows the number of sites which have been given each of the 5 possible ratings for that provision of the Base Code and the number of workers in the supply chain and the total number of workers at those sites.

The second table provides average ratings for each element of the Base Code. For this purpose sites with no data are not included in the calculation of the average rating as that would artificially lower the ratings of sites where only limited inspections had been carried out. The first average is by number of sites; the second by number of workers in the supply chain at those sites; and the third by total number of workers at those sites.

Finally, the third table reproduces the sub-tables from P1-P9 that show the total number of improvement actions designed to remedy each category of issue and the total number of sites where these actions have been implemented.

By comparing these supply chain ratings year on year ETI should be able to build up a picture of the progress being achieved by individual companies and by the members as a whole. ETI does not propose to rank companies by reference to these ratings because it is not satisfied that data from different companies will be directly comparable due to differences in their supply chains and possible differences in methodology and rigour in selecting sites to be inspected and carrying out those inspections.

Comment

This sheet provides an opportunity for the company to comment on the analysis set out in the KPIs and, in particular, on any changes in supplier ratings since the previous year, countries or sectors which pose particular problems and how the company is tackling or plans to tackle those problems.

When three years' data becomes available companies will be asked to comment on analysis of the current position of sites which three years earlier were rated as having major breaches against each element of the Base Code.

Validation of Reports

ETI reserves the right to call for additional information and documentation and to inspect the management and data systems on which the information in the report is based. The ETI Board has decided that a validation process will be carried out in respect of the 2006 annual reports. 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.

Glossary

appears compliant: This round of inspection found no evidence of a breach. However, breaches were found on a previous inspection; the site has not been inspected before; or it is not well known to the company and/or has not been involved with other independent third party organisations.

budgeted expenditure: All direct expenditure devoted to improving labour standards in the supply chain including staff and travel costs and payments to third parties. Where staff devote part of their time to these issues an appropriate fraction of their costs should be included. Reductions in margins in order to support certain goods should not be counted because that is not expenditure. Marketing costs related to publicising the company's work in this area should not be counted and nor should indirect costs such as premises and share of overheads. Work on improving labour standards may include work on issues which are not covered by the ETI Base Code but wider community work e.g. supporting educational, social or rehabilitation projects, should not be counted as expenditure on ethical trading.

collective bargaining: A process by which one or more of the terms or conditions of work are determined by negotiation between the employer(s) (or employers' organisations) and representatives of the workers concerned.

Collective bargaining may take place pursuant to a formal written agreement or less formal unwritten arrangements. It may take place at departmental, site, company, group, regional, national or international level.

consistently compliant: No evidence of breaches has been found by more than one successive inspection or audit. The site may have worked with the company over several years to implement changes or may have been audited by different organisations to cross-check the results.

Full time equivalent: Staff who work part of the time (e.g. part time, temporary, seasonal or agency workers) should be counted as the appropriate fraction of a permanent full time worker. Thus a seasonal worker works full time for 3 months a year will count as 0.25 and someone who works 2 full days out of a 5 day week will count as 0.4.

improvement action: An improvement action is an action which makes a significant change in the conditions at the site. Requests to a supplier to address an issue or arranging further inspections are **not** improvement actions. General training on the requirements of the base code or the company's reporting requirements will not constitute improvement actions but training designed to address a specific problem in the workplace (e.g. how to operate non-discriminatory hiring and promotion) may be an appropriate improvement action.

initiatives: Projects and other activities a company engages in to identify root causes of problems and/or to test different approaches to achieving sustainable change. This includes any relevant ETI projects and working groups in which the company is engaged (and which will have been mentioned in the company's answer to M1.2). The company should not

include in its answer to M4.1 work which is designed to remedy problems at a particular site or sites unless that project is also designed to generate wider learning.

inspection: An inspection is a method of assessing the extent of a site's code compliance against ETI base code which includes a presence on site of sufficient duration and unobstructed access to all relevant facilities to carry out an audit. It can be carried out by internal staff from the company, by staff from one of its suppliers inspecting a site of one of that supplier's own (lower tier) suppliers or by external third parties (commercial or non-profit).

major breach: A major breach may be a systematic breach and/or a serious breach of the base code (see more under *Serious and Systematic breaches*).

minor breach: A minor breach of the base code occurs when there is a failure in a system which is generally in line with the base code. It is an isolated or occasional 'mistake' which indicates that, while the general system is acceptable, the enforcing or policing of the system should be improved. Some examples of minor breaches are; generally good health and safety systems but the inspection found that some fire extinguishers were missing or some training was overdue; a policy stating an appropriate maximum number of overtime hours and a system for managing this but inspection discovered that there were occasional cases when more than the maximum number of overtime hours were worked; a management system which ensures that all workers carrying out permanent jobs are given permanent contracts but there are occasional instances where this has been overlooked or where a worker was moved from a seasonal job to a permanent job and has yet to receive a permanent contract.

no data: The inspection did not cover this area.

production site: a site where goods are produced or transformed (e.g. packaged) in some way.

a recognised trade union: A democratic organisation of workers which is separate and independent from the employer(s) and whose purpose is to protect and enhance workers' terms and conditions of work.

risk assessment: A risk assessment is a method of identifying and assessing risks in the corporate member's supply chain. Typically it is based on either generic data, questionnaire information from the supplier or short site visits. The results give some initial idea of a site's status but they do not have equal weight as the results of a site inspection.

self-inspection: A self-inspection is an inspection in which one or more members of a corporate member's staff inspects one of its own production sites or a supplier's member(s) of staff inspects one of that supplier's sites.

A self-inspection should only be treated as an inspection if;

- (a) the inspector(s) carrying out the inspection have been properly trained and use appropriate methodology;
- (b) the inspectors are not based at the site being inspected; and
- (c) the inspectors are independent of and are not answerable to site management.

If a self-inspection does not fulfil each of these conditions it should be treated as a risk assessment and not as an inspection.

serious breach: A serious breach of the base code may occur only very occasionally but it will be serious if it could have serious consequences for workers' health e.g. the removal of a safety guard from machinery, or it infringes on basic rights e.g. physical punishments of workers or victimisation of a union representative.

A serious breach may also be systematic (e.g. it may require more robust systems in place to ensure workers do not and are not under pressure to remove safety guards in order to increase productivity).

systematic breach: A systematic breach is a problem which is institutionalised in the supplier's systems. Systematic breaches are found when the "normal way of doing things" contravenes one of the base code provisions or is insufficiently robust to prevent contraventions. Some examples of systematic breaches include routine use of bonded labour, management prohibition of union membership, inadequate arrangements for provision of protective clothing, no proper checks on ages of young workers, etc. Systematic breaches will generally require a new investment or change to management practice (not something which is simply the enforcement of an existing practice).

tier of supplier: The level of production site at which goods are produced or transformed. Thus:

A first tier site is a production site at which the goods are finished ready for supply to or sale by the member company. If the member company is a retailer the first tier supplier will normally be where the goods are packed and labelled. An agent who buys and sells product but who does not transform it in any way (e.g. by packaging) should not be counted as a tier. If goods are bought through an agent the first tier will be the production site from which the agent sourced the goods.

A second tier site is a production site which supplies goods or materials to a first tier site for incorporation into the finished product. The same site may be a first tier supplier to one ETI member (e.g. a food supplier "S" who sorts, packs or labels the produce or a retailer "R1" who sources direct from that site) and a second tier supplier to another ETI member (e.g. a food retailer, "R2", who obtains the produce from supplier S).

A third tier site is a production site which supplies goods or materials to a second tier site for incorporation in goods or materials that site supplies to a first tier site.

workers in the supply chain: is calculated by multiplying the number of workers at each site by the company's share of production at that site.

workers' representatives who are not representatives of one or more recognised trade unions: Any workers or groups of workers who seek to represent workers' interests but who are not elected or appointed by a recognised trade union. These will include works councils, workers' committees, staff associations and other forms of worker representation. Representatives of organisations which do not consist of workers and their representatives e.g. churches, NGOs, pressure groups and political parties are **not** workers' representatives.