Key components of private sector transparency - disclosure
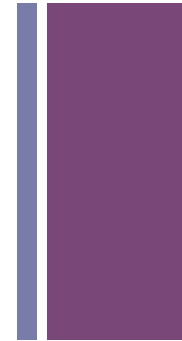
Dr. Juanita Olaya
Regional Workshop: Enhancing Transparency in the Private Sector in Arab Countries and the Roles of Different Stakeholders
Tunisia, June 8, 2012

Corporate Transparency

Information (Active or Pasive) disclosure:

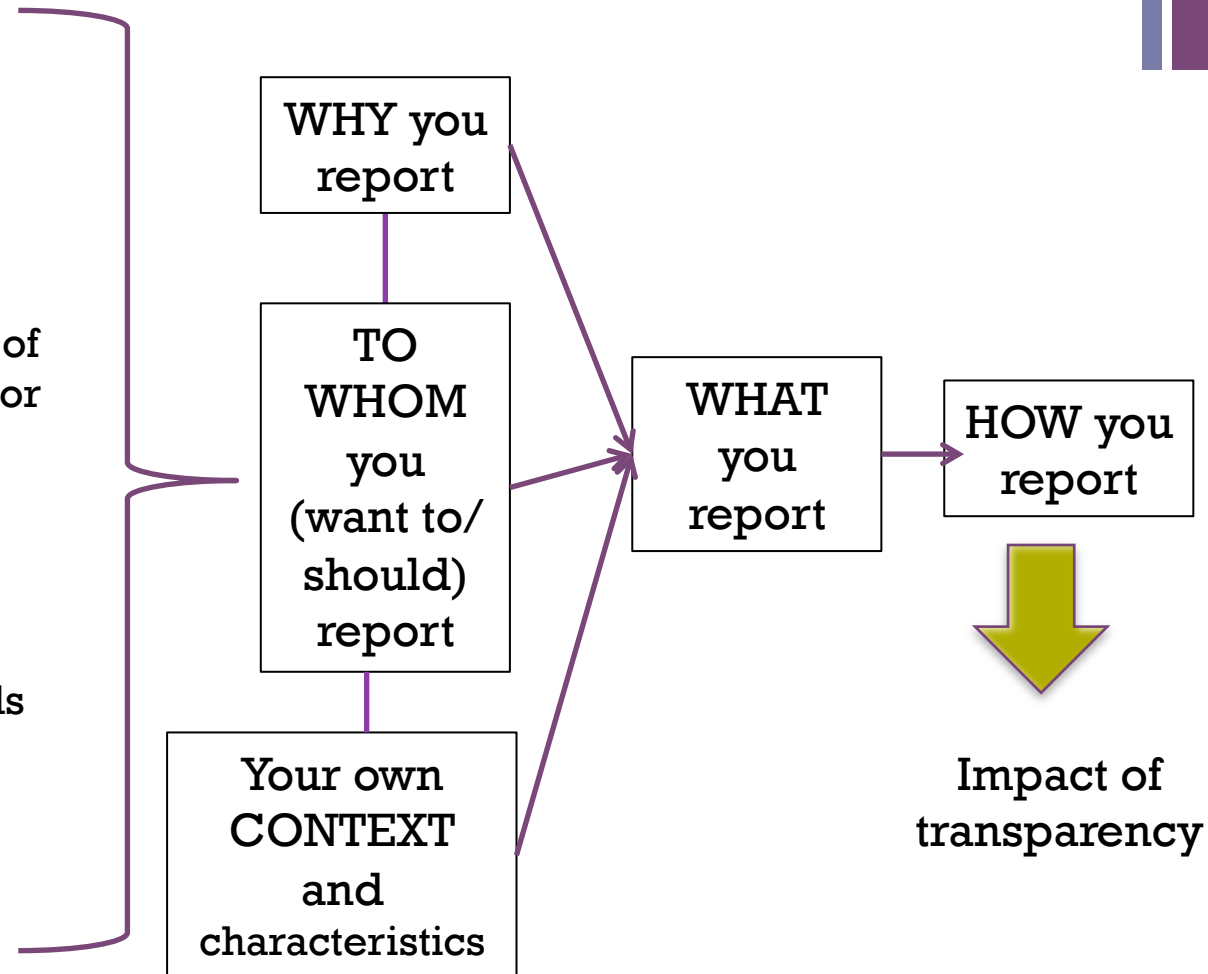reporting policies and practices

Reporting Issues – HOW?

Legal
* International Law
* National Laws

Commercial
* Your own reality: type of company, market, sector etc.
* Competitors
* Added Value

Reputational
* International Standards
* Best Practice
* Added Value

WHY you report

TO WHOM you (want to/ should) report

Your own CONTEXT and characteristics

WHAT you report

HOW you report

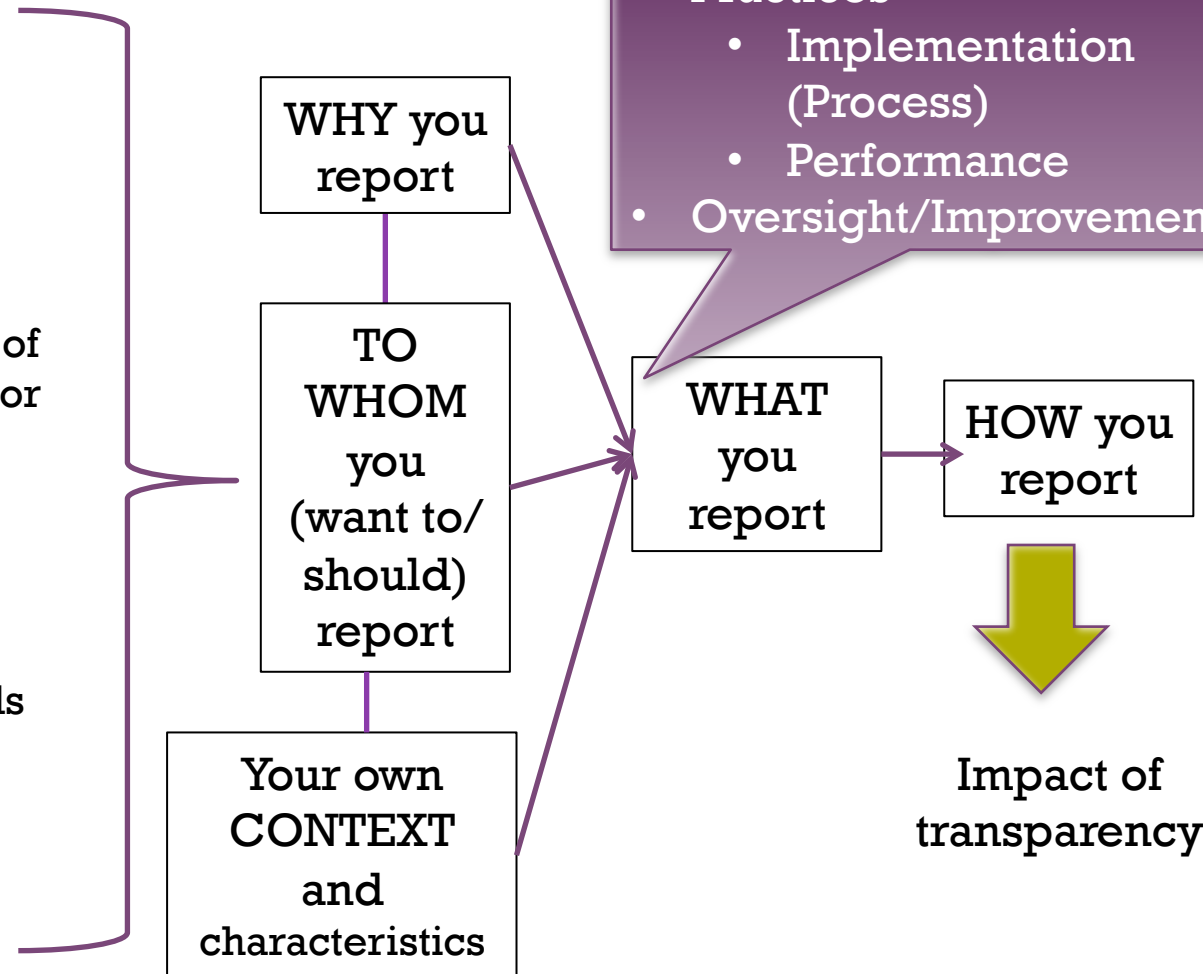Impact of transparency

Reporting Issues – HOW?

Legal
* International Law
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Commercial
* Your own reality: type of company, market, sector etc.
* Competitors
* Added Value

Reputational
* International Standards
* Best Practice
* Added Value

WHY you report

TO WHOM you (want to/ should) report

Your own CONTEXT and characteristics

WHAT you report

* Policies
* Practices
  * Implementation (Process)
  * Performance
* Oversight/Improvement

HOW you report

Impact of transparency

What information?

- Financial and related non-financial information
- Non-Financial disclosure (responsible business):
  - **Organizational and ownership information – corporate governance**
  - **Status and performance of the Anti-Corruption / Compliance Programme: policies and practices**
    - General Policies and Practices
    - Political contributions
    - Charitable contributions and sponsoring
    - Violation (e.g. corruption cases) and company reaction
  - Corporate sustainability, including human rights, environmental standards, climate change impact
  - **Supply chain responsibility / could even include information on public contracting**
- Sector specific disclosure:
  - Extractive Industries
  - Manufacturing
  - Services
  - Financial Services
  - Retail
  - Others (Pharmaceutical, Art Trade, Luxurious goods etc.)
- Product Specific disclosure (consumer protection)
- Operational/performance disclosure

Reporting Issues – HOW?

- Fulfil legal requirement (often not enough)

- Truthful and Credible: who says what about whom (some need external -third party- validation)

- Relevant
    - Stakeholders (Owners, shareholders, investors, clients, consumers, public at large)
    - Up to date (flowing)

- Useful
    - Clear / Easy to read (targeted)
    - Accessible (passive or active)
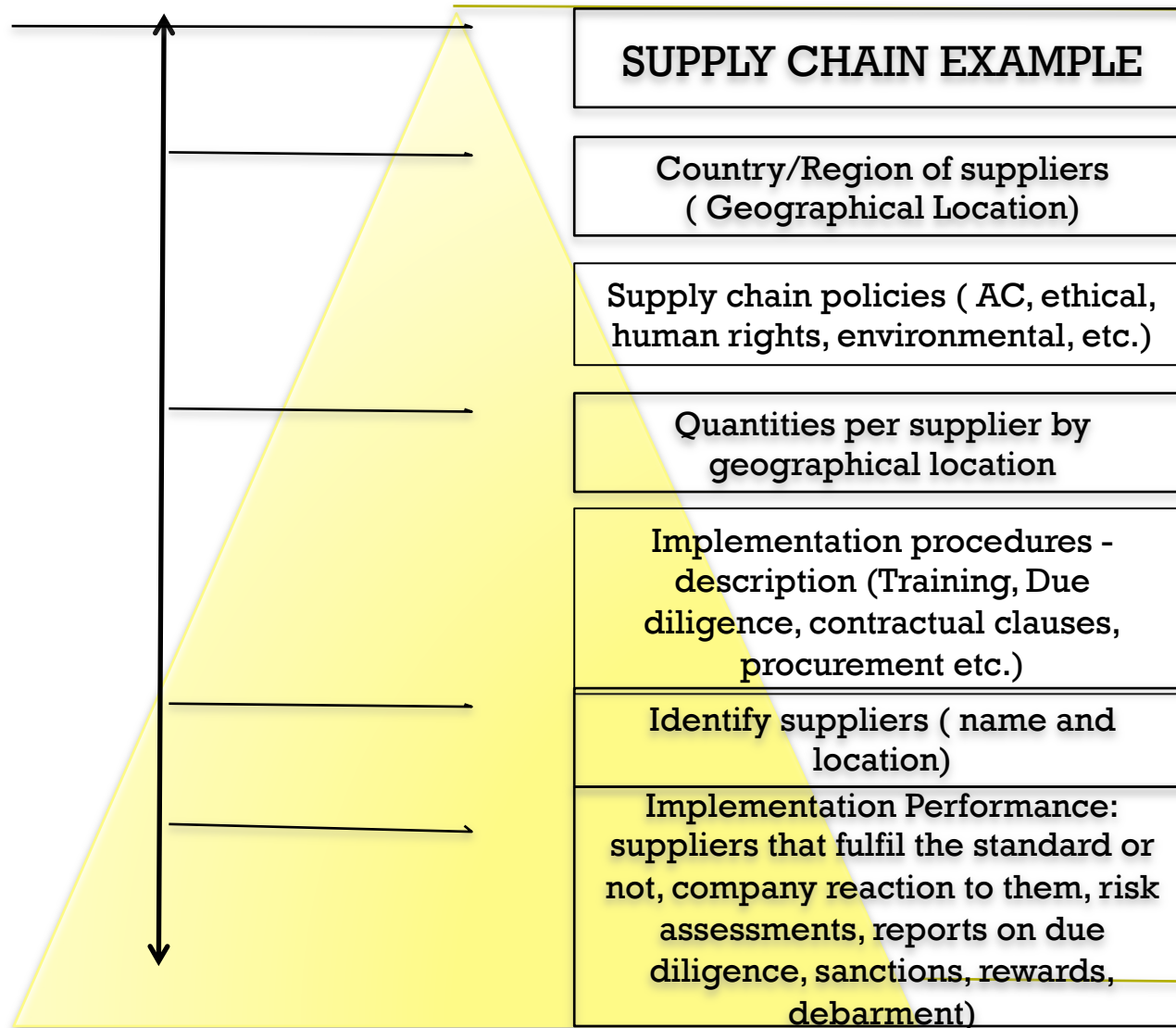   - Quantitative and Qualitative?

How: choosing level of detail

Practical
Example: GAP

SUPPLY CHAIN EXAMPLE
Country/Region of suppliers (Geographical Location)
Supply chain policies (AC, ethical, human rights, environmental, etc.)
Quantities per supplier by geographical location
Implementation procedures - description (Training, Due diligence, contractual clauses, procurement etc.)
Identify suppliers (name and location)
Implementation Performance: suppliers that fulfil the standard or not, company reaction to them, risk assessments, reports on due diligence, sanctions, rewards, debarment)

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How: choosing level of detail

ANTI – CORRUPTION EXAMPLE

Commitment and Policy:

Basic Reporting Elements		Desired Reporting Elements	
B 1	Publicly stated commitment to work against corruption in all its forms, including bribery and extortion	D 1	Publicly stated formal policy of zero-tolerance of corruption
B 2	Commitment to be in compliance with all relevant laws, including anti-corruption laws	D 2	Statement of support for international and regional legal frameworks, such as the UN Convention against Corruption
		D 3	Carrying out risk assessment of potential areas of corruption
		D 4	Detailed policies for high-risk areas of corruption
		D 5	Policy on anti-corruption regarding business partners

Implementation:

Basic Reporting Elements		Desired Reporting Elements	
B 3	Translation of the anti-corruption commitment into actions	D 6	Actions taken to encourage business partners to implement anti-corruption commitments
B 4	Support by the organization's leadership for anti-corruption	D 7	Management responsibility and accountability for implementation of the anti-corruption commitment or policy
B 5	Communication and training on the anti-corruption commitment for all employees	D 8	Human Resources procedures supporting the anti-corruption commitment or policy
B 6	Internal checks and balances to ensure consistency with the anti-corruption commitment	D 9	Communications (whistleblowing) channels and follow-up mechanisms for reporting concerns or seeking advice
		D 10	Internal accounting and auditing procedures related to anti-corruption
		D 11	Participation in voluntary anti-corruption initiatives

Monitoring:

Basic Reporting Elements		Desired Reporting Elements	
B 7	Monitoring and improvement processes	D 12	Leadership review of monitoring and improvement results
		D 13	Dealing with incidents
		D 14	Public legal cases regarding corruption
		D 15	Use of independent external assurance of anti-corruption programs

How: choosing level of detail

Ownership and Governance

Legal Form, place of registry, headquarters and subsidiaries, afiliations.

Governance Structure, Executive Board and Advisory Board members. Business relations, joint ventures, etc.

Governance policies (conflicts of interest, code of ethics applicability, etc.) and remuneration policies for senior management and board members.

Senior Management and Board members names, remuneration, etc.

Assets and Conflicts of Interest registry

Practical Example: Marks&Spencer

Specific / detailed

Gap Inc.   Retail

Gap Inc.

Market Overview	
Strategy & Structure	Goals & Objectives
Managing for Value	People, Supply Chain
Performance	Environmental, Social & Ethical, Segmental

Summary

A Summarises, in the Annual Report, the Group's commitment to social responsibility and its importance in attracting employees and delivering long-term shareholder value

B Provides a candid insight, within the Social Responsibility Report, into the outside world's response to the Group's first Social Responsibility Report and reaffirms the Group's commitment to social responsibility

C Summarises, with the support of graphics, the Group's social responsibility initiatives by geography and category

A Social Responsibility

Gap Inc. is passionate about social responsibility—and we continue investing in each of these areas. Being a socially responsible company also inspires and attracts the kind of talented and ethical people we want working with us. In fact, many new employees cite our commitment as a reason they joined the company. We believe this commitment is essential to our success as an employer, a corporate citizen and a company who brings great brands to customers and delivers long-term shareholder value.

B

In the days after we released our first social responsibility report last year, it wasn't easy to see headlines like, "Gap admits factory abuses."

But this was more than offset by positive responses from the media, employees and other stakeholders who told us how much they appreciated our candor – and how they wanted to work with us to address the challenges described in the report.

Their response renewed our commitment to improving garment factory conditions, and reinforced our belief that talking about challenges is an important step toward resolving them.

From Paul Pressler
President and Chief
Executive Officer, Gap Inc.

That doesn't mean we expect our efforts to create a competitive advantage. While ethical sourcing is an essential part of the long-term growth and sustainability of our business, our goal is to help improve conditions across the apparel industry as a whole. And we know that's not something we can do alone.

C REGIONAL BREAKDOWN OF SOURCING COUNTRIES AND SIGNIFICANT GAP INC. SOCIAL RESPONSIBILITY INITIATIVES

CATEGORIES
- Ethical Sourcing
- Employees
- Community Involvement
- Environment

EL SALVADOR
- **San Salvador:** Independent Monitoring by Grupo de Monitoreo Independiente de El Salvador (GMIES)
- **San Salvador:** CIMCAW

GUATEMALA
- **Guatemala City:** Independent Monitoring by the Commission for the Verification of Corporate Codes of Conduct (COVERCO)
- **Guatemala City:** Continuous Improvement in the Guatemalan Workplace (CIMGUAW)
- **Guatemala City:** Water quality pilot program

HONDURAS
- **San Pedro Sula:** Community Corps volunteers
- **San Pedro Sula:** Gap Foundation grants and donations
- **San Pedro Sula:** Independent Monitoring by the Independent Monitoring Team of Honduras (EMIH)
- **Tegucigalpa:** CIMCAW

Summary   US

D Outlines four key strategic priorities for 'forging sustainable solutions' in the world's garment factories and emphasises the importance of a collaborative and integrated approach between the Group and outside partners

E Builds on these strategic priorities by setting out, in tabular format, the Group's performance during the year against goals for each priority and establishes new goals for the coming year, as shown here for 'Inspect & Measure'

D FORGING SUSTAINABLE SOLUTIONS

The magnitude and complexity of the challenges we face are not an excuse for inaction. As we emphasized in last year's report, we recognize and embrace our responsibility to take a leadership role in improving conditions in the world's garment factories. The realities of our industry and broader operating environment, however, do have important implications for the strategies we use to drive change.

Over the past few years, we have been migrating toward a more collaborative, integrated approach in which we work closely with partners in government, civil society, trade unions and the commercial sector to develop broad solutions that address the underlying causes of poor working conditions and stand the test of time.

Our strategy for forging sustainable solutions focuses on four key priorities:

FORGING SUSTAINABLE SOLUTIONS

- **Inspect & Measure:** Make monitoring a more effective tool for identifying problems, managing remediation and measuring progress.

- **Integrate:** Embed compliance directly into business practices and supply chain operations.

- **Collaborate:** Work with external stakeholders to address systemic issues that have made poor working conditions endemic in the garment industry

- **Communicate:** Build a foundation for ongoing growth and collaboration through transparency and stakeholder engagement

E 2004 GOALS

AREA OF FOCUS	GOAL	PROGRESS	SELF-ASSESSMENT
Inspect & Measure	Participate in SAI pilot compliance program evaluation	• Participated in evaluation by Social Accountability International (SAI) (p. 26) • Participated in Verité assessment of training needs (p. 27)	Achieved

2005–06 GOALS

AREA OF FOCUS	GOAL	ACTION PLAN
Inspect & Measure	Review COVC to address deficiencies and increase alignment with other codes	• Conduct a comparative analysis with the SA8000 standard and ETI Base Code • Outline plan to address major inconsistencies
	Review monitoring protocol for more efficient and effective use of compliance resources	• Evaluate scope, duration, staffing levels and frequency of factory audits in context of feedback from SAI and Verité • Evaluate opportunities to streamline monitoring efforts through greater collaboration with other buyers and third-party auditors
	Develop a new data collection system	• Develop system that substantially improves ability to record, analyze and report data in meaningful ways
	Further enhance external auditor training for compliance team	• Identify externally-recognized training organizations • Conduct additional issue-specific training on detection of issues such as discrimination and freedom of association

Gap Inc. 2004 Annual Report, Gap Inc. 2004 Social Responsibility Report

Gap Inc.
Gap
Banana Republic
Old Navy

Summary

F Expands on each strategic priority, as shown here for 'Inspect & Measure'

G Explains the process for monitoring Group factories using their unique factory rating process and scoring tool and provides, in tabular format, factory rating data by country

H Discusses the impact of the Group's factory approval programme on overall compliance levels, supported by quantitative analysis of the success rate of new factory approvals by region

I Sets out the number of approved factories during the year and explains the reason for the decrease from the previous year

F Inspect & Measure

We are leveraging both our experience and the expertise of external parties to make our monitoring program a more effective tool for identifying problems and measuring progress. We want to be able to bring the same rigor and consistency to factory monitoring that we apply to other aspects of our business, like tracking inventory flow or recording financial results.

Last year, we took an important step toward that goal when Social Accountability International (SAI) and Verité conducted thorough assessments of our monitoring program and inspection protocols.

G ASSESSING OUR MONITORING EFFORTS: HOW DID WE DO IN 2004?

DEVELOPING EFFECTIVE MONITORING

Our Global Compliance team fields more than 90 individuals around the world who are as diverse as the garment manufacturers from which we source. Most of them are Vendor Compliance Officers, or VCOs. They are the eyes and ears of our monitoring program. They spend their days visiting factories, conducting inspections, documenting violations of our COVC, and working with garment manufacturers and others to build capacity for greater compliance.

RATING FACTORIES ON COMPLIANCE PERFORMANCE

In last year's report, we introduced a rating tool that quantifies our inspection data and helps us compare factory performance from year to year. Factories receive ratings based on the number and type of issues documented during inspections over a 12-month period, as well as how often the issues recurred and how long it took factory management to resolve them.

2004 FACTORY RATING DATA

COUNTRY	Level 1 (Urgent Attention Required)	Level 2 (Needs Improvement)	Level 3 (Fair)	Level 4 (Good)	Level 5 (Excellent)	Total
Cambodia	1	2	9	14	6	32
China	49	51	68	54	14	236
El Salvador	2	0	2	1	5	10
Guatemala	3	4	7	3	0	17
Honduras	3	2	1	5	2	13
Lesotho	2	3	4	3	0	12

H What do these numbers mean?

We still face many challenges with our approved factories. However, our approval process does have a measurable impact on factory compliance levels. Approved factories tend to have fewer overall compliance issues than factories that have not yet gone through the process. The only violation we find more frequently in approved factories is related to our overtime policy, and this is due to the fact that we have the opportunity to review factory records for longer periods of time and during peak production cycles.

I Monitoring our approved factory base

Once a garment factory is approved, we aim to visit it at least once a year. For some, we conduct more visits. In 2004, our VCOs conducted approximately 6,750 inspections in 2,672 garment factories around the world. This is a decrease of about 1,750 inspections and 337 factories compared to 2003, due primar-

2004 FACTORY APPROVAL DATA

REGION	# of new garment factories evaluated	Approved	Not approved	Pending
Greater China	93	68%	26%	6%
North Asia	11	91	9	0
Southeast Asia	75	78	7	15
Indian Sub-Continent	64	87	8	5
Persian Gulf	1	100	0	0
North Africa & the Middle East	30	73	13	14
Sub-Saharan Africa	21	62	29	9
Europe (including Russia)	57	70	21	9
United States & Canada	20	80	5	15
Mexico, Central America & the Caribbean	68	88	9	3
South America	14	64		

Gap Inc.
Gap
Banana Republic
Old Navy

Summary

J Presents a table covering the percentage of factories with violations, split by geography, and eight violation types, of which three are shown here

K Establishes the likely trend in violations in the future

L Provides a candid discussion addressing the increase in one of the violation types – discrimination - found in the Group's factories and how these violations may be more widespread than the data suggests

M Sets out additional detail on the key types of violation, as shown here for 'forced labour', including the Group's response to correct it

J 2004 CODE VIOLATIONS

REGION	Greater China	North Asia	Southeast Asia	Indian Sub-Continent	Persian Gulf	North Africa & the Middle East	Sub-Saharan Africa	Europe (including Russia)	United States & Canada	Mexico, Central America & the Caribbean	South America
No. of approved factories in 2004	423	138	603	525	29	92	103	257	151	280	71
No. of factories revoked for compliance violations	18	0	18	23	0	3	6	1	1	0	0
GENERAL PRINCIPLE											
IA Lacks full compliance with local laws											
IB Restricted access of Gap Inc. representatives											
ENVIRONMENT											
IIA Lack of environmental management system or plan											
IIB Insufficient notification procedures in case of environmental emergency											
DISCRIMINATION											
IIIA Employment											
IIIB Wages & benefits											

LEGEND

- No code violations verified
- Violations verified in less than 1% of factories
- Violations verified in between 1% and less than 10% of factories
- Violations verified in between 10% and less than 25% of factories
- Violations verified in between 25% and less than 50% of factories
- Violations verified in more than 50% of factories

2 We believe that violations in these areas are more widespread than our data suggest. For more information, please see p. 20.

K

In the near term, progress is likely to mean that we find more violations, not less, especially in challenging areas such as discrimination and freedom of association. We hope that, as we work with fewer garment manufacturers for longer periods of time, these numbers will begin to level off and, eventually, decrease.

L

Notably, we also saw small increases in our documentation of factories with cases of discrimination. In part, this demonstrates what our team learned from the SAI training sessions in October 2004. Nonetheless, we continue to believe that these violations, and those of freedom of association, are more widespread than our data suggest. Many of these issues first come to our attention through third parties, such as trade unions or NGOs, rather than our own monitoring efforts. We plan to introduce more targeted training to improve our work in these areas in the future, and explore ways

M SECTION IV – FORCED LABOR

We found one instance in 2004 in which workers in a Chinese factory were not permitted to resign (if they so desired) during the peak production season. We revoked approval of the factory.

We also found a case in Honduras where the doors in one production area were locked, thus preventing workers from being able to leave. We asked the factory to correct the situation immediately and confirmed a few weeks later through a physical inspection and interviews with workers that the doors were and had remained unlocked. We continue to monitor the factory.

We recorded three cases in Egypt, Morocco and Vietnam, respectively, in which factories maintained a clause in their employment contracts requiring workers to pay a fee if they

Disclosure. Your own decision

- What is required by the law? What standards apply to me? Where are my standards in relation to those?

- Beyond that, what makes sense in my context? (Regional and local characteristics, stakeholders, market, business plan, competitors)

- How do I reach my target audience?

- Who in my company is in charge of that? Where is the information coming from? How do I ensure quality?

- Special, home grown Arab region transparency standard/ commitment?

- A role to play for industry associations, civil society and companies