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
- WHAT you report
- HOW you report

Your own CONTEXT and characteristics

Impact of transparency

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Reporting Issues – HOW?

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- Your own reality: type of company, market, sector etc.
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**WHY you report**

**TO WHOM you (want to/should) report**

**WHAT you report**

**HOW you report**

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

Impact of transparency

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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

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)

Broad / General

Practical Example: GAP

Specific / detailed

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# Commitment and Policy:

<table>
<thead>
<tr>
<th>Basic Reporting Elements</th>
<th>Desired Reporting Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>Publicly stated commitment to work against corruption in all its forms, including bribery and extortion</td>
</tr>
<tr>
<td>B2</td>
<td>Commitment to be in compliance with all relevant laws, including anti-corruption laws</td>
</tr>
<tr>
<td>D1</td>
<td>Publicly stated formal policy of zero-tolerance of corruption</td>
</tr>
<tr>
<td>D2</td>
<td>Statement of support for international and regional legal frameworks, such as the UN Convention against Corruption</td>
</tr>
<tr>
<td>D3</td>
<td>Carrying out risk assessment of potential areas of corruption</td>
</tr>
<tr>
<td>D4</td>
<td>Detailed policies for high-risk areas of corruption</td>
</tr>
<tr>
<td>D5</td>
<td>Policy on anti-corruption regarding business partners</td>
</tr>
</tbody>
</table>

## Implementation:

<table>
<thead>
<tr>
<th>Basic Reporting Elements</th>
<th>Desired Reporting Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>B3</td>
<td>Translation of the anti-corruption commitment into actions</td>
</tr>
<tr>
<td>B4</td>
<td>Support by the organization’s leadership for anti-corruption</td>
</tr>
<tr>
<td>B5</td>
<td>Communication and training on the anti-corruption commitment for all employees</td>
</tr>
<tr>
<td>B6</td>
<td>Internal checks and balances to ensure consistency with the anti-corruption commitment</td>
</tr>
<tr>
<td>D6</td>
<td>Actions taken to encourage business partners to implement anti-corruption commitments</td>
</tr>
<tr>
<td>D7</td>
<td>Management responsibility and accountability for implementation of the anti-corruption commitment or policy</td>
</tr>
<tr>
<td>D8</td>
<td>Human Resources procedures supporting the anti-corruption commitment or policy</td>
</tr>
<tr>
<td>D9</td>
<td>Communications (whistleblowing) channels and follow-up mechanisms for reporting concerns or seeking advice</td>
</tr>
<tr>
<td>D10</td>
<td>Internal accounting and auditing procedures related to anti-corruption</td>
</tr>
<tr>
<td>D11</td>
<td>Participation in voluntary anti-corruption initiatives</td>
</tr>
</tbody>
</table>

## Monitoring:

<table>
<thead>
<tr>
<th>Basic Reporting Elements</th>
<th>Desired Reporting Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>B7</td>
<td>Monitoring and improvement processes</td>
</tr>
<tr>
<td>D12</td>
<td>Leadership review of monitoring and improvement results</td>
</tr>
<tr>
<td>D13</td>
<td>Dealing with incidents</td>
</tr>
<tr>
<td>D14</td>
<td>Public legal cases regarding corruption</td>
</tr>
<tr>
<td>D15</td>
<td>Use of independent external assurance of anti-corruption programs</td>
</tr>
</tbody>
</table>
### How: choosing level of detail

<table>
<thead>
<tr>
<th>Ownership and Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad / General</td>
</tr>
<tr>
<td>Legal Form, place of registry, headquarters and subsidiaries, affiliations.</td>
</tr>
<tr>
<td>Governance Structure, Executive Board and Advisory Board members. Business relations, joint ventures, etc.</td>
</tr>
<tr>
<td>Governance policies (conflicts of interest, code of ethics applicability, etc.) and remuneration policies for senior management and board members.</td>
</tr>
<tr>
<td>Senior Management and Board members names, remuneration, etc.</td>
</tr>
<tr>
<td>Specific / detailed</td>
</tr>
<tr>
<td>Assets and Conflicts of Interest registry</td>
</tr>
</tbody>
</table>

Practical Example: Marks & Spencer
Example Supply Chain Reporting:

GAP

SOURCE: PWC Best Practice Data Base

www.corporatereporting.pwc.com

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Summary

1. Summaries, in the Annual Report, the Group’s commitment to social responsibility and its importance in attracting employees and delivering long-term shareholder value.

2. Provides a candid insight, within the Social Responsibility Report, into the outside world response to the Group’s first Social Responsibility Report and renews the Group’s commitment to social responsibility.

3. Summaries, with the support of graphics, the Group’s social responsibility initiatives by geography and category.

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 the commitments essential to our success as an employer, a corporate citizen and a company who brings great benefits to customers and delivers long-term shareholder value.

In the days after we released our first social responsibility report last year, I kept being asked to see the report. “It was a factory attraction.”

But this view was more than a reference to the media, employees and other stakeholders who told us how much they appreciated our efforts – but how they wanted to work within us to address the challenges described in the report.

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

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

This desire to move us on 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 improve conditions across the apparel industry as a whole. And we know there’s still something we can do, learn.

CATEGORIES

- Effective Sourcing
- Employers
- Community Involvement
- Environment

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

- El Salvador
- San Salvador: Independent Monitoring by Grupo de Vigilancia (Independent Monitoring Group)
- San Salvador: CONAGRO
- Guatemala
- ExisteXente: Independent Monitoring by the Committee for the Implementation of Corporate Code of Conduct
- ExisteXente: Continuous Improvement in the Context of Responsibility
- ExisteXente: Climate Change (ECONOCO
- ExisteXente: Water quality and pest program
- Honduras
- San Pedro Sula: Community Corps volunteers
- San Pedro Sula: Independent Monitoring by the Committee for the Implementation of Corporate Code of Conduct
- San Pedro Sula: Independent Monitoring by the Committee for the Implementation of Corporate Code of Conduct
- Tegucigalpa: CINACO

SOURCE: PWC Best Practice Data Base www.corporatereporting.pwc.com
Summary

Expands on each strategic priority, as shown here for "Inspect & Measure"
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.
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.
Sets out the number of approved factories during the year and explains the reason for the decrease from the previous year.

Inspection & Measurement

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 practicality to factory monitoring that we apply to other aspects of our business, including tracking inventory levels or recording financial results.

Developing Effective Monitoring

Our Global Compliance team works with 100 individuals around the world who are 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 Code, 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 the time taken to have factory management respond to them.

2004 Factory Approval Data

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of approved factories</th>
<th>No. of VCOs conducting inspections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater China</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>US</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Europe</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Middle East</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Latin America</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Australia</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Europe</td>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>

2004 Code Violations

- Violations marked in italic text are less than 1% of factories
- Violations marked in bold text are between 1% and less than 10% of factories
- Violations marked in bold and italic text are between 10% and less than 20% of factories
- Violations marked in bold and italic text are between 20% and less than 40% of factories
- Violations marked in black text are more than 50% of factories

- We believe that violations in these areas are more understandable for our stakeholders. For more information, please refer to the table.

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 we can work with fewer garment manufacturers for larger periods of time, as these numbers will begin to level off and eventually decrease.

Section I: Forced Labor

We found evidence in 2003 in which workers in a Chinese factory were not permitted to report the issues they observed during the peak production season. We visited one of the factory’s in our research and witnessed workers suffering from low pay and working hours. Some workers described feeling intimidated and intimidated in a way that was even more severe than the physical harassment and worker that the workers endured. We conducted a similar factory inreddy in 2004 that was subjected to close scrutiny.

Section II: Forced Labor

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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