



Ethical
Trading
Initiative

Respect
for workers
worldwide



Towards greater transparency:
the business case

Executive Summary

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Transparency, in the context of ethical trade¹, can bring significant benefits to businesses and drive better outcomes for workers.

The complexity of global supply chains has too often resulted in a profound lack of visibility, bringing significant risks for businesses. It has allowed poor working conditions to remain undetected and unchallenged, and systems of accountability to remain weak. The events at Rana Plaza in Bangladesh in 2013 epitomised these issues.

Against this backdrop, momentum around demands for greater transparency has gathered pace, particularly over the past two years. Governments, consumers and civil society are making their expectations of companies and the information they share clear, with responsible businesses calling for a level playing field. In parallel, businesses are increasingly realising the commercial value of transparency, backed by growing evidence that it is linked to improved financial, social and ethical performance. As an illustration of this momentum, in 2017 almost three times as many companies in the apparel sector published some form of supplier list compared with 2016.

This is a critical first step. In order to maximise the value of transparency to businesses and workers at all levels of global supply chains, ETI believes that, in time, this disclosure of information needs to go beyond the release of supplier lists. Transparency ultimately needs to become embedded in how global supply chains operate, making them more efficient, more resilient and more sustainable.



As a key part of our 2020 strategy, ETI wants to move the transparency agenda on further, beyond the necessary disclosure of supplier information. To do that, ETI has set out an objective business case for greater transparency, outlining the ways in which it can bring value to companies. This case has been developed in consultation with a range of our members and is based on current evidence of outcomes²:

- a. Transparency enables companies to comply with a growing number of **legal requirements** (such as the Modern Slavery Act 2015 or the EU Directive on Non-Financial Reporting of 2014). Companies now have a legal duty to 'be transparent and accountable, not just to investors but to other groups including employees, consumers and the public whose lives are affected by their business activity'.³ Ignoring such legislation will have significant implications for businesses.
- b. Transparency allows companies to **maximise competitive advantage**. Evidence from companies that have published supply chain information confirms their competitive advantage has remained intact and, in many cases, been enhanced. Data from a large cohort study supports this and shows that transparency more broadly can lead to improved revenue performance.⁴
- c. Transparency helps to **protect corporate reputation, build brand image and build trust with consumers**. Thanks to new forms of technology, consumers have unprecedented access to information and are increasingly engaged. The correlation between greater transparency and increased consumer trust – and consequently commercial performance – has been demonstrated by a considerable number of consumer surveys in the past few years.⁵ Increasingly, transparency is becoming part of companies' 'licence to operate'.

¹For ETI, in the context of ethical trade, the definition of transparency is a holistic one, applying to companies themselves, their supply chains (information disclosure on suppliers, conditions in the supply chain, commercial arrangements such as purchasing practices where relevant, their activities to identify human rights abuses within the chain, what they discover and what they do in response, and so on) and all other actors involved, such as ETI. Transparency is both an activity (information disclosure) and an attitude (a commitment to being open).

²From the business case derive a number of principles that will underpin the direction ETI and our members take on the journey towards increasing transparency. This is set out in a separate paper, Towards greater transparency: ETI's direction of travel.

³See Transparency in Supply Chains etc.: A practical guide, Home Office, 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/649906/Transparency_in_Supply_Chains_A_Practical_Guide_2017.pdf

⁴See Do corporate claims on public reporting stack up? The impact of public reporting on corporate competitiveness, Transparency International, 2016, http://endsecru.eu/files/2016_07_Impact_of_Public_Reporting-final.pdf

⁵See, for example, 2016 Transparency ROI Study, Label Insight, 2016, <https://www.labelinsight.com/Transparency-ROI-Study>, which showed that three in four consumers said they would be willing to pay more for a product that offers complete transparency in all attributes, or Nielsen Global Survey of Corporate Social Responsibility and Sustainability, Nielsen, 2015, <http://www.nielsen.com/us/en/insights/news/2015/green-generation-millennials-say-sustainability-is-a-shopping-priority.html>, which showed that trust was the first sustainability purchasing driver among the respondents.

- d. Transparency enables collective action with civil society organisations.** Sharing information with key stakeholders is the best way to create opportunities for joint action – and, therefore, joint responsibility for solutions – among companies, trade unions, NGOs and others. Collective action is resource-efficient and leads to more effective solutions to supply chain problems that cannot be tackled by one company alone. In essence, transparency enables better flow of information from the supply chain (opportunity for triangulated information) leading to a more informed decision-making. It allows brands to work with suppliers to resolve problems before they reach levels of crisis.
- e. Transparency helps to build trust with investors and facilitate access to capital.** Supply chain labour standards, and the willingness of companies to honestly share information about these, are increasingly factored into investment decisions. Recent data shows a positive correlation between revenue per square foot and social factors: one particular investor, for example, increased their market estimate of revenue growth of an apparel company by 100 basis points when it observed improving labour standards at the company itself as well as at its suppliers.⁶ The development of several initiatives recently indicates that investors will place growing emphasis on the importance of transparency over the next few years.
- f. Transparency enables companies to build trust with their suppliers and have more efficient sourcing relationships.** By engaging with suppliers in a two-way, transparent dialogue, companies can develop more sustainable commercial relationships, secure future supply and incentivise suppliers to take ownership of their own ethical trade agenda.
- g. Transparency within an organisation is directly linked to employee satisfaction and engagement.** The majority of employees want to know that they are working for an organisation that is open about how it operates, communicates candidly and treats its workforce fairly.⁷
- h. Transparency helps companies to embed better working practices internally.** By being more transparent about how they operate, companies are holding up a mirror to their own practices. This can incentivise decision-makers, such as buyers, within the company to prioritise considerations about workers' rights and to trigger more systemic change in commercial practices.



Beyond these clear benefits for companies, ETI has also set out why it is important to move towards greater transparency itself, both internally within the ETI membership and externally in the public domain. This would allow us to share learning more easily and facilitate collective action, as well as demonstrate greater leadership and celebrate ETI's and our members' successes.

Transparency is a trend that is gathering momentum – it will become the norm. It is becoming an essential tool at companies' disposal to ensure the sustainability of their businesses and to improve the situation of workers in their supply chains. As such, transparency is a key strategic priority for ETI. While we realise the journey towards greater transparency may hold challenges for us all, we are committed to supporting our members to fully realise its benefits.

⁶ See 'The Workforce Disclosure Initiative: a win-win-win for workers, companies and investors', ETI, 2017, <http://www.ethicaltrade.org/blog/workforce-disclosure-initiative-win-win-win-workers-companies-and-investors>
⁷ See, for example, 2015 Employee Engagement Trends Report, Quantum Workplace, 2015, <http://www.quantumworkplace.com/resources/whitepapers/research-and-trends/2015-employee-engagement-trends-report/>, or 2015 Employee Job Satisfaction and Engagement: Optimizing Organizational Culture for Success, Society for Human Resource Management, 2015, <http://www.shrm.org/research/surveyfindings/pages/job-satisfaction-and-engagement-report-optimizing-organizational-culture-for-success.aspx>

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The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our vision is a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.

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