The Benefits of Transparency:
A BUSINESS CASE FOR THE APPAREL & FOOTWEAR SUPPLY CHAIN TRANSPARENCY PLEDGE
MAY 2019
About the Author

The International Corporate Accountability Roundtable (ICAR) harnesses the collective power of progressive organizations to push governments to create and enforce rules over corporations that promote human rights and reduce inequality.

Acknowledgements

This paper was researched and drafted by Ernesto Archila, with editorial support from Annick Febrey, Meg Roggensack, Nicole Vander Meulen, and Abby Henderson. It was designed by Shannon Thomas of Shan & Co.
# TABLE OF CONTENTS

I. Introduction ......................................................... 1

II. Background ....................................................... 1
   A. Summary: the Benefits of Responsible Engagement .......... 1
   B. The Apparel and Footwear Supply Chain Transparency Pledge 2
   C. Elements of Analysis ........................................... 2

III. Benefits to Business ............................................... 5
   A. Reputational Factors ............................................ 5
   B. Operational Efficiency .......................................... 8
   C. Improved Compliance .......................................... 12
   D. Increased Access to Capital ................................. 12

IV. Context ............................................................ 12
   A. Policy and Regulatory Landscape .......................... 12
   B. Partnering with Worker Advocates .................... 13
   C. Limits of the Analysis ........................................ 13

V. Conclusion ......................................................... 13

Endnotes ............................................................... 15
I. INTRODUCTION

When companies adopt basic supply chain transparency principles, they benefit from a set of mutually reinforcing outcomes. This paper outlines those key outcomes and benefits to companies in the apparel sector \(^1\) resulting from adopting and implementing a policy of supply chain transparency, \(^2\) including public disclosure of essential elements of their supply chains. By leveraging the virtuous cycle that follows supply chain transparency, many brands have found that: 1) their reputation improves; 2) they benefit from greater operational efficiency; 3) they are more compliant with existing laws and regulations; and 4) they even experience increased access to capital. Each of these benefits results from and reinforces the others. We encourage business leaders to consider the analysis offered below and to take advantage of the opportunity to realize these benefits by deploying ethical, sustainable, and transparent practices to meet their bottom lines and their global human rights obligations in tandem.

II. BACKGROUND

A. Summary: the Benefits of Responsible Engagement

We have seen a tremendous shift since the issue of transparency in supply chains first emerged into popular awareness during the anti-sweatshop campaigns of the 1990’s. Many companies now voluntarily disclose their factory level suppliers in a way that was once novel and even inconceivable to the industry. \(^3\) The transformation within the world’s leading apparel brands to a posture of responsible engagement should be understood as a net benefit, not only for workers, advocates, communities, and the governments that serve them, but also for businesses themselves.

The key outcomes that a company will achieve through adopting transparent practices include:

- Positive reputation;
- Operational efficiency;
- Improved compliance; and
- Increased access to capital.

This paper recognizes the emerging consensus in the business community that human rights and sustainability problems are widespread in global supply chains; that businesses have a duty and a vested interest in engaging responsibly with those supply chains; and that there are robust mechanisms to implement responsible policies, including transparency. As we will explain below, once a company decides to proactively engage in comprehensive human rights and sustainability practices, they will find transparency to be a vital tool to help incentivize their managers, buyers, and employees to improve their reputation, operational efficiency, and compliance. Additionally, investors are increasingly prioritizing sustainability, making businesses that promote a culture of responsibility more likely to attract new shareholders.
B. The Apparel and Footwear Supply Chain Transparency Pledge

Our business case is grounded in the key set of transparency practices laid out in the Apparel and Footwear Supply Chain Transparency Pledge (the Pledge). In short, alignment with the Pledge requires companies to publish and regularly update, in a searchable format, meaningful information about the factories in the manufacturing phase of their garment supply chains, (that is, cut-make-trim manufacturers and their subcontractors that perform “finishing” processes, such as embroidery, laundry, or printing, among others). This information includes:

- The full name of all authorized production units and processing facilities;
- Site addresses;
- Parent companies of businesses at these sites;
- The type of product made, in general categories, such as apparel, footwear, home textile, accessories; and
- The range of workers at each site, in categories of: less than 1,000 workers; 1,001 to 5,000 workers; 5,001 to 10,000 workers, and more than 10,000 workers.

The Pledge is intended to be a minimum standard to galvanize further change, as benefits to both companies and workers are realized and additional information disclosure requirements are added. Currently, for instance, the Pledge does not include disclosure of working conditions, grievance mechanisms, or other tiers of the supply chain. We believe that companies should implement a broader range of transparency practices, as well as other sustainable business and supplier relations practices to better activate the virtuous cycle described in this paper and achieve the greatest benefits from investing in transparency.

The Pledge was developed by a coalition of civil society organizations that reached out to 72 major apparel brands and retailers and urged them to meet these minimum standards. Several brands already disclosed some supply chain information and agreed to meet the remaining elements of the Pledge. Others fell just short, while others had never disclosed their suppliers before, but adopted the Pledge. Some did not respond, or opted to continue on a path of non-disclosure.

This paper is a tool to help clarify a simple and defensible business case for additional companies to join the leaders that have already come into full or almost full alignment with the Pledge’s standard, and in some cases exceeded the standard.

C. Elements of Analysis

We have identified several factors that support business transparency. They are mutually reinforcing, and create a virtuous cycle, illustrated below. The Pledge is an important first step to activating this powerful set of interlinked benefits.
The key benefits of following this model of transparency include: (1) increased positive reputation; (2) enhanced efficiency and integrity in business operations, when coupled with prioritizing social sustainability practices in sourcing; and (3) as a result of (2), better human rights and sustainability outcomes, lower risk, enhanced due diligence, and better compliance, all of which feed back into (1) (see Figure 1).

**FIGURE 1: VIRTUOUS CYCLE**
Reputational factors, the first category of analysis, are those associated with public standing. They include external, as well as internal perceptions of a company's brand. We analyze reputation as perceived by five stakeholder groups: the company's investors; consumers; employees at the retail level; civil society actors, including worker advocates, unions, and non-governmental organizations (NGOs); and government officials and regulators, whether at the local, regional, national, or international levels.

The second category of analysis, efficiency and integrity in business operations, refers primarily to managing relationships with suppliers and subcontractors, as well as ensuring that existing due diligence mechanisms mitigate risk and guarantee compliance with labor and other standards. It is important to highlight that committing to transparency as defined by the Pledge is unlikely, in and of itself, to improve sourcing operations. To achieve the significant benefits we point to, additional efforts are necessary, including further disclosures, requiring suppliers to adhere to sustainable practices, and conducting an analysis of buyers’ purchasing practices and how they contribute to violations. One example of the benefits of additional disclosure is that it helps limit instances of unauthorized subcontracting, which are widespread in the industry, and result in risk of reputation-damaging violations, as well as quality control concerns. In addition, transparency can be a critical tool in implementing and reinforcing cultural transformations within the business, and in promoting sustainable business practices at all levels.

The third category of analysis looks at the critical outcomes that result from enhancing efficiency and integrity in business operations and, in turn, improving brand reputation. Better management of relationships with suppliers and subcontractors results in better human rights and sustainability outcomes, better working conditions, and possibly even improvements in other areas of sustainability, such as environmental impact. In turn, these benefits enhance and reinforce the bottom-line effectiveness of broader corporate-wide due diligence, compliance, and risk mitigation processes that may seem unrelated to transparency.
III. BENEFITS TO BUSINESS

A. Reputational Factors

A company’s reputation has tremendous impact on a range of elements that contribute to its bottom line, and many brands devote considerable time and financial resources to ensuring positive brand perception. Transparency practices like the Pledge can have a positive impact on a company’s reputation with regard to at least five stakeholder groups, explored below. The positive impact of transparency is both direct, demonstrating the company’s commitment to human rights, and indirect, measured by other outcomes that are achieved, as detailed later in this paper.

i. Investors

Investors are increasingly interested in a company’s human rights and sustainability policies and practices because of their potential effect mitigating reputational risks, and as a sign of the overall integrity of the business’ systems and operations. A recent letter to CEOs from the world’s largest asset management firm articulated the relevance of Environmental, Social and Governance (ESG) factors in the investment world (see the text box below).7

“…a company’s ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.”

– Larry Fink
Chairman and CEO, BlackRock, January 2018 Annual Letter to CEO’s.8

According to a recent report, one investor increased revenue growth estimates for a company in the apparel industry by 100 basis points because of improvements in labor standards.9 Goldman Sachs’s 2017 ESG report states that “...running our firm sustainably is good business, and it’s a key ingredient to us delivering long-term value to our shareholders,”10 while Calvert Research and Management CEO John Streur, speaking in March, 2017, in the context of responsible investing, stated that “There are companies that have really come to understand how to do a great job for society. They’ve built human rights, sustainability, diversity into their business models. They’ve really developed a deep understanding of being a better company as a result of doing the right thing, day in and day out. Those companies are just fine. They’ll continue to take advantage of their knowledge and their expertise in terms of delivering what we need.”11
Many investors thus value transparency and see disclosure as a key component of a company’s human rights and sustainability policies and practices. Transparency helps to enhance investor trust and build good will with this critical category of stakeholders, including investor activists, who have the capacity to significantly impact a business’ direction. Hence, some investor groups focused on business and human rights and sustainability are increasingly calling for better company disclosures. For example, the Corporate Human Rights Benchmark (CHRB), which has been adopted by major investors managing $5.3 trillion in assets, includes key indicators on the disclosure of supply chain information.

**ii. Consumers**

The general public has an aversion to rights violations, poor working conditions, or other scandals in the supply chains of the brands whose goods they buy. This can result in the risk of lower sales and lower revenue. This dynamic stands as the primary deterrent force of transparency, and one of the most feared by business leaders. As the noted supply chains expert Richard Locke writes, “It is precisely because global brands are so powerful and visible to the public that they have become targets for transnational activist groups and other NGOs. The Achilles heel of these powerful global corporations is their reputation (brand value).” However, this risk exists whether or not disclosures are made and does not outweigh the benefits of transparency.

The impact of consumers on a company’s reputation can be positive as well as negative, and some brands have built an identity in the marketplace for their ethical conduct. Clear examples of this in the apparel sector include Patagonia, Eileen Fisher, and Everlane, among others. More broadly, companies organize around sustainability practices and principles in a number of fora, including the American Sustainable Business Council, Business for Social Responsibility (BSR), the Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition EICC), and others.

The very act of disclosing suppliers can have a strong mitigating effect on public perception when violations are found. In addition, transparency can actually help shield companies by preventing them from being erroneously blamed by consumers for violations and problematic practices among suppliers they no longer, or have never worked with.

**iii. Employees at Retail Level**

One of the driving factors at the retail end of operations for most apparel companies is the cost of labor. Increased employee motivation and loyalty to the company results in higher productivity and lower turnover and training costs, which can add up to significant cost savings. Adopting general transparency policies leads to improved employee satisfaction. Employees want to work for a company that does good. Conversely, retail employees may experience lower job satisfaction and pride of ownership in the brand they represent to consumers on a daily basis if human rights violations are found in the supply chains of the products they sell.
iv. Civil Society and Advocates

Civil society, including worker advocates, trade unions, and NGOs are important players in the supply chain transparency environment. These groups often work with companies behind closed doors, helping to identify abuses and working with companies to address them before they become a public relations challenge.

While transparency allows activists to better identify potential concerns and leverage that information to incentivize remedy and prevent future problems, the ways that companies choose to react when violations are found are an increasingly important part of how a company’s reputation is impacted by the revelation. Transparency is one way in which companies can proactively demonstrate to civil society actors that they are serious about human rights and sustainability practices.\(^\text{13}\)

“Publishing our supplier list has supported supplier ownership and accountability of their sustainability performance. We are fully aware and honest about the challenges in our industry, so we have nothing to hide, as our teams work on the ground close to suppliers, trade unions and local stakeholders to drive change every day. Despite the fact that the disclosure made us more exposed than others in the public eye, we now publish the factories on every H&M garment.”

– Hanna Hallin
Strategy Lead Transparency & Stakeholder Engagement, H&M group\(^\text{20}\)

In conducting their due diligence on a company, stakeholders like investors, consumers, employees, and government officials may gauge its reputation with NGOs and civil society groups. Thus, a good reputation with civil society and advocates due to transparency commitments will help improve a company’s reputation with others.
v. Regulators and Government Officials

While a poor reputation does not necessarily translate into compliance challenges, it can lead investigators and regulators to apply additional scrutiny to supply chains associated with the company. For example, in procurement bidding, past violations may impact the responsibility determinations by procurement officials. A company’s reputation will impact how government officials engage, highlight, or publicly call out violations and concerns. It also affects the degree to which the company’s representatives will be invited to speak at, or participate in, various convenings and policy fora where important discussions unfold. Where they participate or speak, the company’s reputation will also set the stage for how the representative’s remarks are received by the participants, and the level of credibility that will be afforded to them. Being sidelined at such meetings can lead to real impacts and loss of access to influence policymaking that can shape future market access and business operating environments.

B. Operational Efficiency

Transparency increases the efficiency and the integrity of a business’ supply chain, particularly if coupled with complementary sustainable sourcing and supplier relations’ practices. That is, the more a company discloses, the greater this effect. The impacts on labor standards include: 1) addressing issues as they arise by enhancing the efficiency of grievance mechanisms; 2) increased trust with suppliers through their ownership of human rights and sustainability issues, and helping to prevent unauthorized subcontracting; 3) enhanced industry-wide collaboration; and 4) incentivizing and reinforcing existing human rights and sustainability practices within a company (see Figure 2).

The primary mechanism by which these impacts are realized is through partnerships with worker organizations and civil society organizations, as well as by helping to foster positive buyer-supplier relationships and good practices.
FIGURE 2: CONTRIBUTING ELEMENTS TO EFFICIENCY AND INTEGRITY OF BUSINESS OPERATIONS

- **Sustainable Buyer-Supplier Practices**
- **Increased Supplier Incentives**
- **Stronger Sourcing Relationships**
- **Reducing Unauthorized Subcontracting**
- **Improved Grievance Mechanisms**
- **Strengthened Industry Collaboration**
- **Strengthening and Incentivizing Internal BHR Practices**
- **Better Mapping of Supply Chains**
- **Incentivize Buyers and Managers**
i. Improving Grievance Mechanisms

Many companies have implemented grievance mechanisms to tap into the on-the-ground knowledge that workers have, in order to find and fix labor violations in a timely fashion. Indeed, implementing robust grievance mechanisms to empower workers to effectively raise concerns is considered a best practice in risk management and due diligence around compliance with forced labor standards, among other issues.21

The efficacy of such grievance mechanisms, however, often depends on external civil society actors encouraging and helping workers report their concerns. In some cases, it also depends on workers knowing the downstream supply chains into which their labor is feeding. Lack of disclosure slows down the grievance mechanism process, thereby delaying its overall effectiveness.22

ii. Efficiency of Sourcing Relationships

Sourcing relationships can be enhanced by transparency in at least three ways. First, when coupled with positive buyer-supplier practices, transparency can encourage suppliers to comply with human rights and sustainability practices that companies may demand in codes of conduct. This is because, by being listed publicly, their reputation is at stake, so in order to retain contracts with major brands, they will seek to minimize any negative reputational impacts.23

Sourcing efficiency is also enhanced by preventing a critical failure point in many supply chain control regimes - namely unauthorized subcontracting of work to external operations. These relationships exist outside the company’s existing systems for quality assurance and code of conduct compliance. The potential downside for businesses of having unauthorized subcontracting in their supply chains is reputational risk, lack of compliance, and quality control issues. Third party audit mechanisms are often not sufficient to detect unauthorized subcontracting, but enhanced transparency, particularly at levels that exceed the Pledge’s minimums, can enable workers and worker advocates to quickly detect operations they know are doing work but are not officially listed. If the proper grievance mechanisms are in place, and include non-retaliation protections, workers can help identify such unauthorized subcontracting.

In addition, transparency has the potential to enhance collaboration with other businesses within an industry. Collaboration allows for the more efficient use of resources when targeting challenges in sourcing.
“Nike’s approach to making product responsibly is grounded in developing deep relationships with suppliers, setting and upholding high standards, working with suppliers to advance capabilities and accelerating industry change through collaboration. We believe that responsible manufacturing is a pre-competitive space which requires partnership across our industry to make global change. Collaboration starts with transparency, creating a foundation that holds both brands and suppliers accountable, while creating opportunities to effectively work together to advance change. That is why, in 2005 Nike was the first company in our industry to publicly disclose our Tier 1 supply base, and since that time we’ve continued to push on transparency.”

– Jaycee Pribulsky
VP Sustainable Manufacturing & Sourcing, Nike

In particular, the Ethical Trading Initiative (ETI), a coalition of businesses, unions, and NGOs, noted that industry collaboration on supply chain disclosures, “…enables the identification of common leverage points, a more rapid analysis of issues, the design of more effective solutions, better factory selection for program design, more consistent messaging with suppliers, and more innovative collaboration in new areas.”


When companies decide to implement business practices that promote human rights and sustainability, transparency can be a vital tool to reinforce, reify, and galvanize cultural transformations. Additional visibility empowers and incentivizes managers, buyers, and other decision-makers embedded in the company’s operational systems to deliver on the company’s broader human rights and sustainability policies.
C. Improved Compliance

The kind of increased efficiencies and integrity of business operations described in the preceding section can result in better human rights and sustainability outcomes. These outcomes by definition also mean lower risk of labor violations, stronger due diligence, and stronger compliance (and hence, market access) with current regulatory regimes and those on the horizon. All of these elements are interconnected, feeding back into the analysis of reputational factors, closing the complex virtuous cycle described at the outset of this paper.

D. Increased Access to Capital

In 2018, 26 percent, or $12 trillion, of assets under management in the United States were invested in socially responsible investments (SRIs). This represents a 38 percent increase since 2016, illustrating growing investor interest in prioritizing sustainability. This significant growth in recent years shows an emerging trend towards responsible businesses. Adopting transparency standards sends a signal to investors and potential new shareholders that a company is prioritizing sustainability.

IV. CONTEXT

A. Policy and Regulatory Landscape

Much has been written in recent years about the emerging legislative trend towards requiring companies to provide basic disclosures, albeit most such legislation requires companies to disclose their supply chain policies rather than information about their suppliers. These key regulatory regimes should be at the forefront of any business analysis of the value of transparency.

It is important to highlight that the disclosure requirements called for in laws like the California Transparency in Supply Chains Act and the UK Modern Slavery act are fundamentally different from the Pledge, in that they are oriented towards sharing company policies and processes (if they exist) to address a specific, egregious category of labor exploitation in supply chains, and are widely open to the company’s discretion on how to comply. Mandatory due diligence laws like the French duty of vigilance law require proactive due diligence, though with limited degrees of enforceability. Delivering on the Pledge would not in itself constitute compliance with either category of laws on most readings, but if a company has policies in place, its disclosure would be considered by many experts to be a valuable component to any corporate policy that did comply, and would add credibility to the disclosure.

We believe that transparency policies like those in the Pledge are in full alignment with the UN Guiding Principles on Business and Human Rights (UNGPs), though they are by no means a comprehensive fulfillment of the practices, perspectives, approach, and affirmative obligations the UNGPs outline.
B. Partnering with Worker Advocates

In order to fully adopt transparency standards, it is essential for businesses to engage with workers, worker advocates, unions, and other civil society actors to gain maximal visibility and access to their supply chain. Without such partnerships, elements of a company’s supply chain may remain opaque.

This is because workers are best placed to know the realities on the ground in their workplaces. Worker advocacy groups and unions have an institutional incentive to empower worker voices and seek to find and shed light on elements of the supply chain that many brands can only access in a limited way through third party audits, codes of conduct, and other due diligence mechanisms.

C. Limits of the Analysis

This paper is focused on labor rights-related disclosures that are the focus of the Pledge, as reflected in business and human rights and sustainability policies. We recognize that other forms of disclosures, relating to, for example, gender, indigenous rights, or environmental sustainability, are an important complement to the Pledge, and can enhance the benefits described here. We also acknowledge that benefits from Pledge disclosures will be most powerful when coupled with responsible purchasing practices and positive supplier relationships.

V. CONCLUSION

This business case for transparency with public disclosure at the level required by the Apparel and Footwear Supply Chain Transparency Pledge is intended to argue for a floor rather than a ceiling for transparency policies in the garment industry and beyond. Transparency is a key item in a much broader toolkit of business and human rights and sustainability practices that can have a range of positive outcomes for businesses and the communities in which they operate.

Even taken on its own, however, we have seen that transparency can leverage civil society engagement and reputational factors, and begin to activate a self-reinforcing system of supply chain practices and outcomes, the final impact of which is greater than the sum of its parts.

We encourage more business leaders to join those who have already taken the Pledge, leading their companies towards transparency, sustainability, and accountability, and reaping the benefits of their transparency.
ENDNOTES

1. We use the terms “apparel” and “garment” interchangeably to reference the same industry. Both are intended to include footwear and the footwear industry.

2. Unless otherwise specified, we use the term transparency in this paper specifically to reference the particular set of supply chain disclosure policies and practices called for in the Apparel and Footwear Supply Chain Transparency Pledge.


5. While ICAR is a member of the Transparency Pledge coalition, this report is not a coalition publication. Thus, it reflects ICAR’s views only and may not reflect the views of other coalition organizations.

6. It is outside the scope of this paper to explore the type of complementary business practices beyond transparency, but they can include practices related to: timing and conditions of purchase orders; longer term commitments to suppliers as incentives for code of conduct compliance; prioritizing such compliance over short term efficiency where needed; robust grievance mechanisms that effectively integrate worker voice without fear of retaliation, and more.


ICAR does not intend endorse these fora or assert that their efforts have resulted in actual improvements in supply chains by including them in this paper. A full assessment of their effectiveness is beyond the scope of this paper, and they are included merely as examples of fora through which companies organize around sustainability practices.


Lynn S. Paine, Nien-he Hsieh, & Lara Adamsons, GOVERNANCE AND SUSTAINABILITY AT NIKE (A), HARVARD BUSINESS SCHOOL CASE 313-146 (June 2013) (Revised September 2016).

E-mail from Hanna Hallin, Strategy Lead Transparency & Stakeholder Engagement, H&M group, to Nicole Vander Meulen, Legal & Policy Coordinator, ICAR (Apr. 14, 2019, 10:20 pm ET) (on file with author).


See HUMAN RIGHTS WATCH ET AL., supra note 4.

David J. Doorey, supra note 3.


