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Closing the Gap: Quality and standards in ethical supply chains

International Trade Forum - Issue 3/2010



Gap Inc. is one of the world's largest clothing retailers. It is also an industry leader in ethical sourcing and supply chain management through a social responsibility programme that advocates human rights as an essential component of quality and standards management.

Under its brands Gap, Banana Republic, Old Navy, Piperlime and Athleta, Gap Inc. is one of the world's largest specialty retailers with more than 3,000 stores and 130,000 employees around the world. Gap outsources to more than 1,500 production sites in 50 countries, of which more than 90% are located in developing countries.

Gap's reputation for ethical supply chain management is largely the result of the company's commitment to standards enforced through its Code of Vendor Conduct (COVC) and Vendor Compliance Agreement. Gap's COVC establishes the legal, social and environmental requirements that all manufacturers and factories must meet in order to do business with the company. The code is based on conventions established by the International Labour Organization (ILO) and aligned with the policies of Social Accountability International (SAI) and the Ethical Trading Initiative (ETI).

Once vendors are approved, they are required to be compliant with Gap's COVC and also to ensure that they implement the code and agreement throughout their own supply chains. To enforce these standards, Gap monitors 99% of its garment factories through both announced and unannounced visits conducted by vendor compliance officers, who are part of the 120 employees in Gap's global responsibility team.

Improvements through capacity-building programmes

In recognizing that monitoring alone won't achieve lasting, large-scale improvements in working conditions, Gap introduced capacity-building programmes that focus on working with factories to develop management skills and systems that increase factory accountability for meeting standards.

Key elements of the capacity-building programme include:

- Evolving the monitoring process;
- Working with factories to embed social accountability into their own operations;
- Increasing the use of certification programmes (e.g. SA8000 - see box);
- Training factories to engage with stakeholders; and
- Collaborating with other brands in the apparel industry to make better use of resources, avoid duplication of efforts and collectively create and share best practices.

Q&A

TRADE FORUM EDITORIAL INTERVIEW

with Dan Henkle, Senior Vice President, Global Responsibility, Gap Inc.

TF: Gap Inc. has rigorous standards and quality systems in place through its COVC and Vendor Compliance Agreement, but what are the challenges you face in enforcing them - particularly in developing countries?

DH: While we have made a lot of progress in the past 15 years in terms of alignment around the codes that are being used and what has been asked of the vendors, there are still some challenges with the level of enforcement of those codes. Many factories work with more than one buyer, for some that may be as many as 20 brands. So if a factory has five buyers and each buyer has different enforcement rigour, then that sends mixed messages to the supplier. I liken it to an employee of a company having five different bosses and each boss asks the employee to do five different things, then it becomes challenging and confusing. So there can be one set of rules (which are the codes), but it is the level of expectation that is the same across different buyers which is important. If you take that five-buyer example, if Gap gives 40% of the capacity of the factory, then we have fairly significant amount of leverage and influence in that factory, but it's not the same in a scenario where we are one of the buyers but use only 5% of the factory's capacity. As an example, take a situation where one buyer does not enforce the amount of overtime that is worked and another that has very clear, non-negotiable expectation of the amount of overtime worked. What does the factory manager do at that time? And if you are a relatively small brand operating in a factory, it is even harder to have a big voice at the table.

TF: How difficult is it to enforce quality and standards codes across multiple countries?

DH: Lack of regulation by some governments can be one of the things that makes this work challenging. Some countries have decent monitoring systems in place but others have much less infrastructure and resources devoted to inspections. In a country that has limited labour inspection standards, we recognize the need to build up monitoring teams.

TF: Is there a need for more internationally recognized standards?

DH: Yes. Initiatives like the ILO and International Finance Corporation (IFC) Better Work programme (see box) is expanding into other countries. That definitely helps because they are using one set of standards and one monitoring system. We think this is really important, but it is not something that can be replicated easily. Even with a good set of systems and monitoring protocols, there is still a need for buyers to look at the findings from compliance audits and use the leverage they have with suppliers to implement the recommended improvements.

TF: So, although Gap is a market leader in terms of ethical sourcing, unless the rest of the industry implements similar standards, there will be continual challenges?

DH: In our first social responsibility report (2004), we basically said that there are no finite answers to complex societal issues. The reality is there is not a global solution to any of these challenges, but if we adopt best practice and everyone does their part, including non-governmental organizations and multilateral institutions, then it can work well.

TF: Do you have any tips - particularly in terms of quality and standards - for suppliers from developing countries looking to sell to buyers such as Gap?

DH: There is a lot of expertise out there to be leveraged. For example, SAI's certification system, SA8000 (see box), meets the expectation of most international buyers and is very practical. The thing that I like about this type of system is that they have worked with thousands of businesses across multiple industries, not just apparel, in numerous countries and can bring best practice examples to the table.

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TF: From Gap's point of view, what is the business case for upholding ethical standards and quality beyond corporate social responsibility?

DH: There are a number of components beyond doing the right thing. From our experience, it is unlikely that a factory where workers are mistreated or working in unsafe conditions will produce the highest-quality product in the marketplace. Employees also want to feel they are working for a company that has integrity and is trying to do the right thing. It's particularly important to the new generation workforce and for attracting talent to your organization. It's a big deal for any organization. And customers are asking more questions.

TF: What evidence do you have of consumer support for ethical products? And how do you communicate with consumers?

DH: The rise of organic foods and organics generally suggests that consumers are more concerned about how products are made. There is a higher level of awareness about how products are made and with that, an increase in expectation. One of the things that Gap has been trying to work out is how to convey information about the product to customers in a way that doesn't sound like we are just trying to pat ourselves on the back. Every product has attributes - whether it is the fabric it was made from or how it was made - but there is usually a lot of information. The challenge is how to distill it into a message that gives the customer a little bit of information on that product but also gives them the resources to dig deeper if they want. That's what we have been testing with Harvard University (see box). I think over the next 10 years, companies will become more experienced in relaying this type of information, just like they've become experienced in communicating the quality and value of a product. We are already seeing this in the marketplace. In some cases you may see companies put out statements and they might be accused of 'green washing', or overstating, but sometimes the key messaging is so subtle that no one is ever going to pick it up. We believe that customers are increasingly looking at these issues and wanting more information. We have years ahead of us to determine how that all works itself out, but that is the journey that we are on right now.

For more information: www.gapinc.com/socialresponsibility.

HARVARD UNIVERSITY STUDY

Putting the Value on Social Product Labelling to the Test

Gap Inc. is one of a number of major United States retailers participating in an ongoing Harvard University study into the impact of ethical certification and labelling programmes in developing countries and consumer demand for ethically labelled products.

In a paper written by Michael J. Hiscox and Nicholas F.B. Smyth in 2005, *Is There Consumer Demand for Improved Labor Standards? Evidence from Field Experiments in Social Product Labeling*, evidence documented from experiments conducted in a major retail store in New York City indicated that sales rose by 10% for items labelled as being made under good labour standards. Furthermore, the demand for the labelled products actually rose with price increases of 10% to 20% above pre-test (unlabelled) levels. Harvard University is continuing further studies, the results of which are yet to be published.

For further information and a copy of the above-mentioned paper, visit www.people.fas.harvard.edu/~7Ehiscox/consumers.html.

SA8000

Social Standards

SA8000 is one of the world's pre-eminent social standards and is a recognized benchmark among the voluntary codes and standards initiatives that employers - including well-known brands - use to measure their own performance and responsibly manage their supply chains. Grounded in the principles of core ILO and United Nations conventions and an ISO-style management system, SA8000 is applicable to virtually all industrial sectors.

SA8000 was established by SAI, a global, multi-stakeholder, standards-setting organization whose mission is to advance the human rights of workers around the world.

SAI's affiliate, Social Accountability Accreditation Service, accredits qualified audit organizations to certify compliance. More than 1.2 million workers are employed in some 2,100 SA8000-certified facilities in 63 countries across 66 industrial sectors. SAI also offers training sources and develops and manages public-private partnerships worldwide.

For further information visit www.sa-intl.org.

ILO/IFC BETTER WORK AND BETTER FACTORIES PROGRAMMES

Cambodia and Viet Nam

Gap Inc. supports the Better Work programme - a joint ILO/IFC effort. This voluntary, industry-based initiative seeks to strengthen relationships between international buyers, local enterprises, governments and worker organizations to improve working conditions and competitiveness.

In Cambodia, the Better Factories programme aims to improve working conditions in the country's export garment factories. The programme is an effective mix of independent monitoring together with recommended solutions, training and information.

In June 2008, ILO assumed full responsibility for monitoring all Gap Inc.-approved garment factories in Cambodia. Its third-party monitoring enables Gap to focus on working with factory management in capacity building so they can better address their problems and develop their own systems to improve working conditions.

In October 2008, the ILO/IFC Better Work programme was launched in Viet Nam, with Gap Inc. as one of its key supporters. Better Work Viet Nam is now the largest of the country programmes developed by the ILO/IFC Better Work global programme. In addition to pursuing the fundamental aims of the ILO/IFC programme, the Viet Nam project aims to enhance factory performance and market access, create a more cost-effective process for labour and compliance, and help the Government improve overall labour standards and economic development.

Gap plans to expand the ILO/IFC Better Work programme into more countries, including Haiti, Jordan and Indonesia. With the belief that industry-wide collaboration will take factory improvements further, reducing duplication and redirecting resources to the critical work of capacity building, Gap is also working towards a more unified monitoring system for all industry brands under the ILO/IFC Better Work programmes.

