Ethical Trading Initiative

External Evaluation: Executive Summary

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Ethical Trading Initiative

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Executive Summary

Introduction to ETI and the External Evaluation

In October 2014 the Ethical Trading Initiative (ETI) commissioned an external evaluation to assess progress against its vision and theory of change, and gauge the extent to which it is organisationally fit to deliver on the direction and ambition of its new strategy 2015-2020. The Strategy represents the next stage in the membership's efforts to support change and improve working conditions, as guided, facilitated, supported and (at times) led by the ETI Secretariat, and working within the direction set by the ETI Board.

The ETI was formed in 1998, by a group of UK companies, NGOs and trade union organisations as a unique tripartite alliance that would work together to define how major companies should implement their codes of labour practice in a credible way – and most importantly, in a way that has maximum impact on workers. Pursuant to this goal, the ETI developed its 'Base Code' – a normative document founded upon the conventions of the International Labour Organisation (ILO), which the Initiative's member companies voluntarily commit to implement.

The membership base of the ETI has expanded significantly since its inception. As of 2015 it comprised 70 companies with combined revenue of over £166 billion and collectively reaching nearly 10 million workers across the globe. By 2020 ETI aspires to ensure that the 10 million workers in in its memberships' global supply chains enjoy improved protection of the rights outlined in the Base Code, greater respect of these rights by those they work for and better access to remedy when the rights are abused.

The evaluation enquiry and analysis was completed over a four month period culminating in a presentation of major themes and related questions to the ETI Board. It focused on the *results* of ETI, including the strength of its multi-stakeholder processes, and the *capabilities* of ETI. It considered a spread of ETI activity encompassing the priority supply chain initiatives (programmed from 2011 on), joint initiatives from more reactive circumstances, member forums, members acting independently, policy advocacy, member accountability and individual member support.

Whilst the evaluation was a comparatively light exercise compared with previous ETI impact assessments (2006) and strategic reviews (2010 and 2012), the understanding was significantly deepened by the active involvement in the process of a tripartite nine person Reference Group drawn from ETI's membership, who helped to frame the enquiry, review emerging findings and shape conclusions. The overall analysis and recommendations are an independent assessment.

Major Findings - Results

The basic theory of ETI's change journey (as framed in 2011) remains valid, based on the evidence of ETIs experience on changing worker conditions through supply chain initiatives. However, results directly affecting the lives of workers to date are largely limited to the more 'visible' (and readily accessible) aspects of the Base Code such as child labour and health and safety.

The ETI has proven to be an effective actor in the policy development and change space. Where it has brought something distinctive and significant to the staging and content of policy level dialogue the ETI Secretariat has demonstrated leadership, often in an understated and behind the scenes way; in some cases forming a position around which members have effectively rallied.

The ETI continues to provide a critical and valued 'safe space' for dialogue between partners on understanding, jointly exploring and addressing new and challenging issues relating to ethical trade.

Through this and other activities convened and/or serviced by the Secretariat, the professional capacity of members on ethical trade is being built. However, the critical area of member organisations having a business case to fully invest in the practice of ethical trade remains weak.

The process of formulating and running approaches tailored to improving working conditions in selected supply chains has been more protracted and complex than anticipated and this has led to frustration and at times a perception of stagnation across the ETI's membership. Whilst a 'slow burn' is understandable given the complexity and sensitivity of dealing with systemic issues on workers conditions in supply chains, the perception of ETI being 'in the slow lane of achieving change in workers conditions' is in contrast to the quicker feel and natural momentum evident within other ETI initiatives – short, sharp and opportunistic interventions – that have developed more organically. There has to date been limited learning generated from the study of the multi-stakeholder processes within the priority supply chain work and such learning is perceived as relatively small in relation to the amount of effort, time and resources expended.

ETI members are active - both individually and in collaboration with tripartite members - outside of the priority supply chains and in doing so are providing test beds for their business cases for ethical trade. It is this organisational experience that reflects the wider reach of the ETI's work and offers an important channel for reflection and learning. ETI engagement can help member companies (and involved trade union and NGO partners) extend the scope of such work – pushing on and up-scaling – from the 'short term project' approach that is often characteristic of member interventions working with external consultants. This will be an increasingly important channel for achieving impact.

ETI has not given enough attention to the impediments to freedom of association. Member companies openly acknowledge the constraints and limitations of audit and compliance-based approaches to advancing ethical trade within their own working environments. The membership recognises that to make significant advances on workers conditions aspects such as purchasing practices and weak trade unions and other forms of association (which members struggle to singularly address themselves) need to be more purposefully addressed – within the bounds of what ETI can realistically do on such issues. In looking for more catalytic ways to engage on this pivotal aspect of the Base Code, the level of engagement from trade union members and their engagement with their affiliates at the local level working with suppliers down through the supply chain will be an increasingly critical area for ETI.

There is a multiplicity of factors involved in bringing change to workers conditions - as recognised by ETIs Theory of change - and determining and attributing the impact of ETIs work will always remain challenging. Notwithstanding the above, the basis for gauging ETIs impact as a membership organisation is constrained by the lack of a coherent, overarching and rounded 'results framework' reflecting the totality of what ETI does – its different entry points – and reflective of the multiple paths to impact on workers conditions in the landscape that ETI inhabits.

Major Findings - Capabilities

Whilst continually improving and reflecting an overall high quality of reporting the ETI member reporting system is having a less than optimum effect on helping member companies to improve their business practice on ethical trade. A factor in this has been the limited attention between 2012 and 2014 on validation visits. Whilst evidence shows a steady improvement trend in the reported ethical trade performance of individual ETI company members the process doesn't support a sense of peer pressure between company members in respect to the trajectories of their individual member journey. The reporting system, as currently operated, supports but doesn't ensure the credibility of ETI's brand (in terms of assurance that members are upholding their obligations). It generates some useful information on the value of ETI membership but in itself does not make a convincing case.

There is a refreshed and competent ETI Secretariat team well aligned to the current 'programming' orientation, membership services and knowledge and learning practice of ETI. An integral and

important part of the wider extended Secretariat team is being provided through some experienced individuals based in Asia who are providing a valued source of local knowledge to members and who are also able to collaborate with the ILO and others in-country.

There is an approaching significant funding gap for the current levels of ETI operation and a relatively short timeframe to address this. Current DFID funding focused on the programmed priority supply chain work will end in March 2016. Efforts to access new donor funding remain largely focused on 'project level' activity and incur proportionally high transaction costs for ETI. Membership fees form an important element of current ETI revenue and could potentially be increased, but only if members feel that being part of the ETI is beneficial. There is no established system within the Secretariat of member (customer) account relationship management which could potentially foster and or explore this further. The operating system for IT enabled communications within ETI is outdated and on a day to day basis is a key constraint to the efficient functioning of the Secretariat.

Running alongside this overall pattern of members contributing resources directly to the work of ETI through membership fees and through additional contributions to specific ETI Secretariat 'sponsored' initiatives' is the continued practice of member companies expending resources on audit exercises. Exercises which are recognised as often placing a heavy burden on suppliers – given the multiple exercises to which suppliers have to subscribe to – and which as compliance instruments, have minimal positive effects. There has been limited attention to pursuing the resources that Trade Union movement and NGOs could potentially invest in initiatives (out-with the priority supply chains) that meet their particular interests in strengthening tripartite working on the ethical trade agenda.

Overall Conclusions – the Need for a Shift in ETI Orientation, Emphasis, Pace and Capacity

The concept – and in part the practice - of ethical trade is now firmly on the corporate and public agenda and ETI has made – and is making - an important contribution to this. The ETI occupies a high-profile and valued position in the global landscape of improving workers' rights. Global trends show the enduring relevance to workers lives of the principles enshrined within the Base Code. Labour markets are characterised by an increasing vulnerability of workers as migration fuelled by economic and by security concerns increases.

Between 2010 and 2015 the environment and in particular the external forces on member companies (e.g. requirements for greater transparency and therefore the givens of needing to actively mitigate supply chain risk) has shifted in a way that requires the focus of activity within ETI and the mode of operation for the Secretariat to rebalance, to something that is facilitative of more direct, hard edged actions. Doing so will convey a greater sense of pace and vitality to ETIs work, thereby continuing to attract member companies to engage with ETI on the hard issues.

There has been a palpable shift in the corporate mind-set (and passion) for sustainable business underpinned by a deeper understanding and ability to communicate on ethical trade issues and the requirements of the UN Guiding Principles (UNGP). Whist progressive ETI members are increasingly looking to work collaboratively (not individually) on the more challenging Base Code issues there is also a concern that for many companies the default response to the due diligence challenge of the UNGP will be to contract out an auditing exercise (focusing on numbers) with minimal reflection internally on how the company operations within the supply chain can interact in way that impacts positively on the lives of workers and in doing so identifies and addresses endemic issues that persist.

Interest and support for ethical trade is an increasingly crowded field and as a result ETI, if it is to substantiate the leadership ambitions explicit within its Strategy 2020, will need to offer something distinctive and compelling that resonates with the aforementioned shift in the last 2-3 years within the business community in the UK and across Europe. The plurality of organisations dedicated to enhancing working conditions presents both opportunities and challenges for ETI. It suggests an abundance of both commitment and expertise, which if properly harnessed and coordinated, could be

directed towards affecting meaningful changes in working conditions around the world. Although most Codes are based on ILO Conventions, there is the risk of confusing suppliers with competing compliance requirements and possible duplication of efforts. This may have direct implications for the ETI, in that the 'Base Code' and its attention to tackling root causes to poor working conditions/ workers' rights may become 'lost in the crowd'.

ETI is a relatively mature network organisation but is unusual in the degree to which it has a continuous stream of members joining the organisation and with that bringing different starting points to their journey and requiring a different form of member experience. Notwithstanding the above ETI needs to further develop its thinking on where and how as a membership organisation it can have an impact and how it can work with the most progressive members in this respect. This will bring a more developed 'whole systems' thinking to pursuing the 'inter-relationship' between the various dimensions that need to come together to push the frontiers on progress towards Impact.

There is a clear opportunity for ETI to be more creative in seeking solutions. Working harder ('sweating') the creative tension that is integral to its tripartite nature – pushing the conversation within the 'safe space' based on an appreciation of what is really happening in practice in relation to the base code within supply chains and pushing the whole membership harder on a solution focus. Whilst the imperative for extracting learning remains and the priority supply chain initiatives should form a continuing part of this, the emphasis of source of learning will shift within ETI.

ETI is in a good place to move in the directions set out above. There are a number of actions taken recently by the Secretariat coupled with the appetite for change coming through those interviewed for the evaluation which represent 'green shoots' of a more confident and assertive ETI from which to build. A challenge will be the need to continue to operate at full capacity whilst managing the internal transitions.

There is an opportunity to pursue greater leverage from the collective voice (often where its power lies) of ETI within the policy debate/ policy change arena. Whilst very challenging in itself, ETI can use the spearhead of a 'progressive business' membership in engaging on systemic change through the entry point of policy advocacy. This will also serve to infuse the continuing vitality of the network and pursuit of a critical corporate mass in the policy space.

Linked to the above is a need for the skills sets within the Secretariat to be able to engage with the 'corporate whole' and as such to be supportive of the moves for decisions affecting ethical trade within company members to be taken at more senior levels and then cascading down. This must be coupled with a greater understanding of the linkages between international trade unions and their affiliates and international NGOs and local collaborators and how such channels can be more actively deployed.

The overall breadth and ambition of the Strategy suggests that a step change would be needed in ETI's resources. To both deliver on the Strategy and to create a stronger offer to the market for funding ETI needs a new business model. This would reinforce the style of Secretariat working as a network hub to both drive change but also support change that is led by members collaboratively working together. Core and linked elements to this change would be; (i) effective and responsive information systems providing high level business intelligence to ETI and a proactive approach to identifying possible connections between members and tools to facilitate action, (ii) a reporting approach that would help member learning both in terms of content and process and provide a stronger narrative for the ETI Secretariat and individual members to be more clearly able to explain the added value of their work both internally and externally. In turn this would facilitate external funds for ETI being leveraged at a more strategic level with less attention to project funding.

Recommendations – to help ETI meet the challenge and realise its opportunities.

1. **Adopt a more distinctive, bolder and sharply focused position within the sustainable business landscape:** Emphasise ETIs position as worker-centred, capitalising on the unique Trade Union element within ETIs tripartite approach. Develop a strategy to engage with the base code imperative of freedom of association.

2. **Work harder the inherent 'creative tension' within ETI's tripartite form:** Use the valued 'safe space' of the ETI format to push difficult conversations. Focus on member companies integrating UNGP-based principles into their business model, sourcing and purchasing.

3. **Reposition the core energy/framing of ETI activity:** Shift the emphasis from project-based and secretariat-driven activity to more strategic support for company members on their business case for ethical trade; catalysing and supporting change in member policy and practice.

4. **Prepare for a possible shakedown in ETI membership through stronger action on accountability to member obligations:** A member driven sharpening and refocussing of member reporting. Part of the ETI membership obligations to require a CEO and/or senior Director level to engage (at a minimum) on an annual basis with ETI through a staged event.

5. **Proactively increase engagement with government in policy areas leveraging the voice of the progressive membership (at senior levels):** Increase the use of existing channels (includes industry representation structures) and alliances with others (e.g. ILO as a key partner to engage governments) to increase ETI influence on the policy stage. Consult and where possible partner in policy dialogues on ethical trade with major US companies.

6. **Increase ETI activity in UK and European supply chains:** Build ETIs expertise and use its influence in ETI's 'own backyard' of the UK and Europe where influence and leverage on the challenging area of vulnerable workers and historically disadvantaged groups such as migrants is greater compared to further afield.

7. **Develop a fresh and expanded lens on capturing and communicating ETI results and impact:** Include in the 'results' of ETI the change in how ethical trade is being 'understood and actioned' within the member company business.

8. **Ensure that ETI has a business model which enables it to deliver at pace on its ambition:** Careful alignment of HR needs to fit the required structures, level of competence and culture the new strategy requires. Directly address the disproportionate time and money (increasingly) being spent within the supply chains on compliance audits.

9. **Immediate investment in information systems to underpin the business model:** Ensuring systems which provide high level business intelligence for ETI. The generated evidence base to more clearly explain the added value of ETIs work both internally and externally supporting external funds being leveraged at a more strategic level with less attention to project funding. Introduce a differential membership package (internal funding).

10. **Assess the need for changes within the Secretariat operation and how best the required shifts can be managed and achieved:** Respond to the need for the Secretariat to be re-geared. To progress the ethical trade business case focus and a new form of relationship management with company members ensure the Secretariat has a cadre of credible, knowledgeable staff who are able to challenge as well as support members. This will also require a shift in working culture in the Secretariat with a greater 'brokering, servicing and facilitation role' being required rather than one focused on initiative 'implementation and delivery'. Invest early in this re-assessment and prospective change process.