



Lotte Debell talks to Arco about joining the Ethical Trading Initiative and what effect this will have on the business.

# An ethical journey

Ethics and the clothing industry have traditionally sat rather uneasily together; but that is changing. Whereas the trend in the early 90s may have been for stories of scandals, recent years have seen an increase in stories of the opposite kind – stories of initiatives by companies, of green and ethical clothing labels being launched. That's not to say that the industry has the problem licked – everyone agrees there is a long way to go – but the combination of consumer awareness, and public and governmental pressure has led to something of a turn around in business attitudes. Being green and ethical is now a selling point, but more than that it is also being realised by some organisations that this is optimal way of doing business.

The Ethical Trading Initiative (ETI) is one of several initiatives that was born out of the scandals of the 1990s to help combat the problems of sourcing in developing countries. It was launched in 1998 to help improve the conditions of workers throughout the global supply chain, and has a tripartite structure of companies, trade unions and non-governmental organisations. This gives it both greater credibility, and means that its members are better placed to effect change; it is also one of the things that attracted its most recent recruit, Arco, the first supplier of safety products to become a member.

Joining the ETI commits members to adopting its base code, nine principles based on ILO conventions that are intended as a progressive means

to improve conditions throughout the supply chain. The base code principles are that employment is freely chosen; freedom of association and the right to collective bargaining are respected; working conditions are safe and hygienic; child labour is prohibited; living wages are paid; working hours are not excessive; no discrimination is practised in the workplace; regular employment is provided; and harsh or inhumane treatment is prohibited. To apply, prospective members have to provide evidence that they have embarked on an ethical programme with their suppliers, along with evidence of other corporate social responsibility-related activities. It is a rigorous process, and can take several attempts to achieve membership.

Arco first considered ETI membership a couple of years ago. The company has had an ethical programme and auditing in place for about six years, and sees itself as committed to the principles of ethical trade, but realised that joining the ETI would require having the appropriate resources in place. 'You can't do these things cosmetically,' says technical manager Mike Ramirez. 'There's no point just going through the motions. You have to get involved and do it properly.'

At that time Arco had recently opened a sourcing office in China – the country where it does the bulk of its sourcing for its own brand products – and felt it needed time to ensure that it had the necessary resources to do the membership process justice – and to take on the comprehensive reporting requirements that member-

**“The best way to understand best practice is to join an organisation like ETI”**

ship entails. As a result Arco waited, but when the company did decide it was ready and applied in July 2007, all the groundwork of the last few years paid off, and its application was accepted within a few months.

Arco, through its Big Red Book, offers customers a huge array of clothing and safety products, from workwear and PPE clothing to gloves, boots, ear and eye protection, and a host of other equipment, both its own brand products and those of other companies. Clothing accounts for around 25 percent of its range, and the bulk of this is made in China. The ETI membership applies only to the production of Arco's own brand products, and suppliers of these have to sign its Ethical Guide for Vendors document, and are audited in accordance with the ETI's base code. 'However, where we are dealing with proprietary vendors we have said that we would like them to sign it, and within three weeks of sending the document out we had a 60 percent positive reply rate,' says category director Megan Davis.

Why did Arco want to join the ETI? Well, Arco, like other companies, is aware that the ethical trade movement is gaining momentum. Consumer awareness is on the up,

and people want to know where and how their clothes are made, but for Arco it was not a commercial decision. According to the company, the ethos of the ETI fits in with Arco's core values. 'This is the way we want to do business,' says Joan Irving, supply chain director. 'We have had a comprehensive ethical auditing programme in place for several years, and we were already sending our Ethical Guide for Vendors to all our suppliers, so this was the next step.'

Now fully-fledged members of the ETI, Arco has redeveloped the specifics of this ethical guide around the principles of the base code, using its nine principles as headers. One of the reasons that the application went through so quickly, believes Mike Ramirez, was that Arco was already well versed in ethical auditing. Why then did the company feel that it needed to take the step of joining the ETI? 'We might be experienced in this area, but we wanted to move it on to the next level, and the best way to do that was to understand best practise in our industry. The best way to achieve this understanding was to join an organisation like the ETI.

'Now that we are members, the audits we carry out will be longer and take more planning,' adds Mike. 'ETI has a number of requirements as regards reports. There is a yearly reporting structure that is very comprehensive, and involves detailing the improvements made since the last audit. If it is an established supplier, we will look at the documentation from the previous year and see where the issues were.



From left to right: some of the children who benefit from Project Hope in China, one of the charities with which Arco is involved; Arco technical manager Mike Ramirez; a team from the Chinese sourcing office auditing one of Arco's factories.

During the audit process we discuss these issues and, if there are more, we agree a timescale of improvement, checking back within the agreed time to ensure the changes have been made and are continuing. It is an ongoing process of ensuring compliance.'

Arco plans to carry out audits of its suppliers in China internally. It can do this because it has a sourcing office there with local staff who speak the language and who visit the factories on an unannounced weekly basis, combining quality and ethical checks. 'We're developing the new auditing process and will be ready after Chinese New Year. Because we have our own team there we're going to build in worker interviews which will be a formal part of the procedure going forward.'

For suppliers in other countries, the company will employ the services of third party auditors, because of geographical and language difficulties. An advantage of membership is that where Arco uses the same factories as other members, it can pool audit information. The ETI also uses cross auditing, so one member could audit Arco's facilities and vice versa, all with the aim of ensuring continuing improvement.

'No factories are perfect,' admits Mike, 'and we vet all facilities before we start using them. We send a team in with Cindy, who heads up our Chinese sourcing office, which conducts the initial audit, and when we get to a stage where we think we might use the factory we do a full formal audit – we can, and do, say no at this point. Until recently we used our own scoring system to assess the suitability of facto-

ries. The difference now is that we're auditing around the ETI base code and the focus is very much on international labour laws.'

This includes things like child labour, which, says Mike, is not something Arco encounters much in China. 'We have had incidents of safety standards being very poor, especially in remote areas. It's difficult, because then we have to make a decision on whether it is possible to improve the factory to the standards we require. It's a balancing act, because we don't want to pull out of a factory unless we have to, but we have a reasonable amount of experience now as we've been conducting audits for four or five years. We're not saying we are doing everything right, but we are trying to do things in the right way.'

Arco is very committed to its suppliers, and to trading in China, which it has been doing successfully for around 15 years. 'We're in there for the long haul,' says Mike. 'We won't change suppliers for the sake of a few pence and most of our suppliers have been with us long term. This is the most effective way to get the best out of them, and one of the reasons I believe our membership went through so quickly. If we're going to invest time and money in factories it doesn't make sense to keep changing. We like to stick with suppliers who share our vision. "People in mind" isn't just a strapline to our business; we take it very seriously.'

This commitment comes through very clearly when talking to anyone at Arco involved in the ETI process. Membership brings with it an addition-

**“Because we had a stable supplier base we have not needed to change suppliers”**

al workload because of the audit trail required and the attendance of seminars, but it also provides an opportunity to share information and learn from the experience of other members. For Arco, already following many of requirements in its own company code, it was the perfect opportunity to step up involvement with ethical trade.

'We already believed in the principles, but one of the advantages of membership is that it allows us to be force for good,' says Megan Davis. 'One of the issues the ETI is very concerned about at the moment is cotton from Uzbekistan, and they are putting together a toolkit for members to help them take steps to identify the source of all the cotton they use. The NGOs and trade union members are also able to bring their own pressure to bear to help combat this issue.'

This is all well and good, but for the end users of Arco's products a key question will be what effect this will have on the products they buy. Will the product range change as a result, will prices go up? 'There will be no negative impact on products,' says Joan Irving. 'Because our supplier base was already stable we have not needed to change suppliers or find new ones to comply with the membership require-

ments, and our quality control procedures remain the same. What our membership will do is give our customers a clearer explanation of our values, and the processes we go through in sourcing, and make it easier for them to relate to this.' In fact, for some customers, membership has been a key factor in their decision to award contracts to Arco. This is especially the case with our public sector clients,' says marketing communications manager Caroline Wilson. 'And Birmingham University, for example, which is a Fairtrade university, was keen to align itself with us because of our commitment to the principles of ethical trade.'

'Being part of the ETI is, in a way, a recognition of how we have been doing business. It's not a commercial strategy on our part. ETI is very strict about its marketing and the use of its logo. The logo can't be used on garments or to sell products – that goes against the spirit of the programme. We have done this because we are a family company and we respect and value our people and we have always tried to give something back to the communities we work in. In China we are involved with Project Hope, which aims to improve literacy and access to computer facilities for children in remote areas. We also work with charities in the UK, and are a member of the Percent Club, donating one per cent of our pre-tax profits to charities.'

'For us, joining the ETI is not the end of our ambitions, it is just one step in our programme of continuous improvement.' ■