

*Making (more) Connections:*

**Sustainability Reporting**

**Vs.**

**Social Compliance Assessments  
(SCAs)**

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CSRI Position Paper (1-16):

## Making (more) Connections

### Sustainability Reporting Vs. Social Compliance Assessments (SCA)

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#### Executive Summery

The objective of this paper is to examine the resemblance and the difference between Sustainability Reporting (Global Reporting Initiative G4 based) and Social Compliance Assessments (SCAs) (based on the Ethical Trading Initiative Base Code). The purpose of this paper is to *"make the connection"* between these two leading social performance methodologies, to pinpoint the similarities and examine whether the differences can or should contribute to corporations organizational efforts to create social value and manage ESG risks. Furthermore, correspondingly, to lay out the challenges and gaps that may arise while deciding which aspects to address in the corporate sustainability report.

This paper identifies a high "match" between most of the aspects in the GRI G4 guidelines and the ETI Base Code, as both aim at improving the social, environmental and economic performance of an organization, considering the well-being of a wide range of stakeholders and requiring the engagement of stakeholders in the process. However, the comparison between the two standards recognizes some substantial gaps in the reporting guidelines with regards to **working hours** and **wages** issues. These gaps may highly affect the transparency of the sustainability reporting and miss the initial purpose of sustainability reporting.

**Key Words** – sustainability reporting, GRI, ETI, social compliance, ESG, stakeholders, transparency.

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## 1. Introduction - GRI G4 Standards and ETI Base Code guidelines

In recent years, a growing number of companies are adopting various **corporate social responsibility (CSR)** initiatives. Shortly, it is the voluntary incorporation of social and environmental issues into a company's business model and operations – in an attempt to meet the needs and expectations of a range of stakeholders. Numerous information intermediaries have been established to gather and make publicly available information about these CSR initiatives – what is termed as “**CSR ratings**” or “**CSR scores**” – thus rating and ranking corporations across several dimensions of environmental, social, and corporate governance performance.

Not only information intermediaries, but also a number of voluntary reporting standards have emerged to enable these information intermediaries to standardize the way they disclose their ESG performances (Ioannou & Serafeim, 2014).

At the same time, globalization and increased consumer awareness has put more responsibility on corporations to ensure that the goods they sell are made in safe working conditions, at fair rates of pay and respecting the basic human rights of those involved in production. All of these aspects are assessed through Social Compliance Assessments (SCA's). In general, SCA refers to the process for measuring, understanding and improving the social performance of an organization (Farmer & January, 2015)

The SCA's are used by global corporations which has the economic power to enforce their standards on their supply chain. As a result, SCA's have become the most influential tool for measuring and evaluating the performance of suppliers around the world, in order to determine and report on a particular organization's level of compliance with local laws and/or client standards and expectations. Such assessments promote increased awareness of labor conditions within the supply chain for clients and suppliers, who can facilitate positive change.

The SCA's are carried out on-site based on a minimum sampling within a specific period of time. The process requires information to be gathered from management interviews, worker interviews, visual observation, and documents & records review. The success of each SCA depends largely on the willingness of the



factory management to provide access to factory grounds, relevant records, and workers for interview.

These days **over 1000 "Codes of Conduct"** and implementation systems are used by corporations / companies in order to assess social compliance. These codes were developed after some well-known scandals involving child labor, hazardous working conditions, excessive working hours and poor wages in factories which supplies goods and services to the Multi-National Corporations (MNCs) (Locke, Qin & Brause, 2006).

Some of the implementation systems are being used mutually by various MNCs such as; Fair Labor Association Code of Conduct<sup>3</sup> (used by Nike, H&M, Reebok, Adidas, Patagonia etc.), Ethical Trading Initiative Base Code<sup>4</sup> (used by Tesco, M&S, Sainsbury's, Argos, Mothercare, GAP, Inditex etc.), ICS (used by Auchan, Metro, Carrefour, Conforama, Casino etc.), Electronic Industry Citizenship Coalition code of conducts<sup>5</sup> (used by electronic companies such as Dell, Phillips, Apple, HP, IBM, Sony etc.). **Likewise** some corporation's decided to establish individual and independent codes of conduct such as; Wal-Mart, Home Depot, Sears, Ikea, Walgreen's, Coca-Cola, MacDonald's etc. These corporations conduct SCAs according to their own set of standards and regulations.

The idea behind this model of "private voluntary regulation" is that auditing should provide some sort of inner information with regard to employees working conditions and environment. This information will be useful to both; consumer groups seeking to exert market pressure on global corporations and the same corporations so they can pressure their supply chain to improve working conditions (Locke, Qin & Brause, 2006).

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<sup>3</sup> To access to full code - [http://www.fairlabor.org/sites/default/files/fla\\_complete\\_code\\_and\\_benchmarks.pdf](http://www.fairlabor.org/sites/default/files/fla_complete_code_and_benchmarks.pdf)

<sup>4</sup> ETI site - <http://www.ethicaltrade.org/eti-base-code>

<sup>5</sup> <http://www.eiccoalition.org/standards/code-of-conduct/>



The following paper will present comprehensive points of resemblance between the GRI G4 Standards, according to the reporting principles and standard disclosures and the Ethical Trading Initiative Base Code of Conduct.

The goal of this paper is to seek and show the resemblance points and the gaps between the two standards. To enable companies which already taken on themselves the reporting principles of the GRI G4, better understanding of the International Labor Law requirements and principles (which the ETI Base code is based on).



#### ETI Base Code<sup>6</sup>

The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. The ETI Base Code has become a leading ethical code in the recent years among UK brands such as; Argos, Tesco, Sainsbury's, M&S etc.). Therefore, this initiative was chosen as a comparison with the GRI Standards.

*"Ethical trade means that retailers, brands and their suppliers take responsibility for improving the working conditions of the people who make the products they sell. Companies with a commitment to ethical trade adopt a code of labor practice that they expect all their suppliers to work towards. Such codes address issues like wages, hours of work, health and safety and the right to join free trade unions" (ETI, 2016)*

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<sup>6</sup> Can be downloaded at The Ethical Trading Initiative website;

<http://www.ethicaltrade.org/resources/eti-base-code>



*"ETI Base Code is founded on the conventions of the International Labor Organization (ILO) and is an internationally recognized code of labor practice" (ETI, 2016).*



### GRI Reporting Standards<sup>7</sup>

*"GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. Sustainability reporting helps organizations to set goals, measure performance, and manage change in order to make their operations more sustainable" (GRI, 2015).*

*"A sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy. In doing so, sustainability reporting makes abstract issues tangible and concrete, thereby assisting in understanding and managing the effects of sustainability developments on the organization's activities and strategy (G4 sustainability standards)" (Ibid).*

*"A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents*

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<sup>7</sup> Can be downloaded at the GRI website;  
<https://www.globalreporting.org/standards/g4/Pages/default.aspx>



*the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy" (Ibid).*

According to the GRI G4 reporting principles there are two different types of Standard Disclosures: **General Standard Disclosures** and **Specific Standard Disclosures**. The **General Standard Disclosure** refers to the following subjects; Strategy & Analysis, Organizational Profile, Identified Material Aspects and Boundaries, Stakeholder Engagement, Report Profile, Governance and Ethics & Integrity. **Specific Standard Disclosures** refers to Disclosures on management approach and Indicators.

## 2. Comparison Table:

In the following table we have aligned one next to the other the same social performance topic (names – Criteria) as they appear at the examined methodologies.

G4-GRI Guidelines	ETI Base Code Standards
<p><b><u>Forced or Compulsory Labor</u></b></p> <p><b>G4-HR6-</b> Reporting based on operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.</p>	<p><b><u>Employment freely chosen-</u></b> There should be no forced, bonded or involuntary prison labor. Workers are not required to lodge "deposits" or their identity papers with their employer and are free to leave their employer after reasonable notice.</p>
<p><b><u>Freedom of Association and Collective Bargaining</u></b></p> <p><b>G4-HR4-</b> Reporting based on operations and suppliers identified in which the right to exercise freedom of association and collective bargaining agreement may be violated or at significant risk, and measures are taken to support these rights.</p>	<p><b><u>Freedom of Association and the right to collective bargaining are respected-</u></b> Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively. The employer adopts an open attitude towards the activities of trade unions and their organizational activities. Workers representatives are not discriminated against and have access to carry out their representative functions in the workplace. Where the right to freedom of</p>



	<p>association and collective bargaining is restricted under law, the employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining.</p>
<p><b><u>Occupational Health and Safety</u></b></p> <p><b>G4-LA5-</b> Percentage of total work force represented in formal joint management – worker health and safety committees that help monitor and advice on occupational health and safety programs.</p> <p><b>G4-LA6-</b> Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities, by region and by gender.</p> <p><b>G4-LA7-</b> Workers with high incidence or high risk of diseases related to their occupation.</p>	<p><b><u>Working Conditions are safe and hygienic-</u></b></p> <p>A safe and hygienic working environment shall be provided, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Adequate steps shall be taken to prevent accidents and injury to health arising out of, associated with, or occurring in the course of work, by minimizing, so far as is reasonably practicable, the causes of hazards inherent in the working environment. Workers shall receive regular and recorded health and safety training, and such training shall be repeated for new or reassigned workers. Access to clean toilet facilities and to potable water, and, if appropriate, sanitary facilities for food storage shall be provided. Accommodation, where provided, shall be clean, safe, and meet the basic needs of the workers. The company observing the code shall assign responsibility for health and safety to a senior management representative.</p>
<p><b><u>Child Labor</u></b></p> <p><b>G4-HR5-</b> Reporting based on operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute the effective abolition of child labor.</p>	<p><b><u>Child Labor shall not be used-</u></b> There shall be no new recruitment of child labor. Companies shall develop or participate in and contribute to policies and programs which provide for the transition of any child found to be performing child labor to enable her or him to attend and remain in quality education until no longer a child; “child” and “child labor” being defined in the appendices. Children and young persons under 18 shall not be employed at night or in hazardous conditions. These policies and procedures shall conform to the provisions of the relevant ILO standards.</p>





<p><b><u>Market Presence</u></b></p> <p><b>G4-EC5-</b> Reporting based on ratios standard entry level wage by gender compared to local minimum wage at significant locations of operation.</p>	<p><b><u>Living wages are paid-</u></b> Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income. All workers shall be provided with written and understandable Information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid. Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.</p>
<p><b><u>Working hours</u></b></p> <p><b>No reference</b></p>	<p><b><u>Working hours are not excessive-</u></b></p> <p>Working hours must comply with national laws, collective agreements, and the provisions below, whichever affords the greater protection for workers. Working hours, excluding overtime, shall be defined by contract, and shall not exceed 48 hours per week. All overtime shall be voluntary. Overtime shall be used responsibly, taking into account all the following: the extent, frequency and hours worked by individual workers and the workforce as a whole. It shall not be used to replace regular employment. Overtime shall always be compensated at a premium rate, which is recommended to be not less than 125% of the regular rate of pay. The total hours worked in any seven day period shall not exceed 60 hours, except where covered below. Working hours may exceed 60 hours in any seven day period only in exceptional circumstances where all of the following are met: • this is allowed by national law;</p>



	<ul style="list-style-type: none"> <li>• this is allowed by a collective agreement freely negotiated with a workers' organization representing a significant portion of the workforce;</li> <li>• appropriate safeguards are taken to protect the workers' health and safety; and</li> <li>• the employer can demonstrate that exceptional circumstances apply such as unexpected production peaks, accidents or emergencies.</li> </ul> <p>Workers shall be provided with at least one day off in every seven day period or, where allowed by national law, two days off in every 14 day period.</p>
<p><b><u>Non-discrimination</u></b></p> <p><b>G4-HR3-</b> Reporting based on the total number of incidents of discrimination and corrective actions taken.</p>	<p><b><u>No discrimination is practiced-</u></b></p> <p>There is no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.</p>
<p><b><u>Labor/Management Relations</u></b></p> <p><b>G4-LA4-</b> Minimum notice period regarding operational changes including whether these are specified in collective agreements- Report based on the minimum number of weeks' notice typically provided to employees and their elected representatives prior to the implementation of significant operational changes that could substantially affect them. For organizations with collective bargaining agreements, reporting based on whether the notice period and provisions for consultation and negotiation are specified in collective agreements.</p>	<p><b><u>Regular Employment is provided-</u></b></p> <p>To every extent possible work performed must be on the basis of recognized employment relationship established through national law and practice. Obligations to employees under labor or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labor-only contracting, sub-contracting or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.</p>



<u>Human Rights</u>	<u>No harsh or inhumane treatment is allowed-</u>
<b>G4-HR1-</b> Reporting based on total number and percentage of significant investments agreements and contracts that include human rights clauses or that underwent human rights screening.	Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.
<b>G4-HR2-</b> Reporting based on total hours of employees training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	

### **3. Findings - Significant differences between the Standards:**

Before diving into depth in the comparison, it is worth while taking a linguistic look at the wording differences. While the GRI uses a neutral language by stating the issue itself ("Human Rights", "Child Labor" etc.), the ETI code used a normative language having each topic being presented as a normative directional statement and thus the topic of human rights is headed as – "No harsh or inhumane treatment is allowed" and the topic of child labor is headed as "Child Labor shall not be used". These differences are very interesting to follow and relates to the role of the organization itself in the overall arena of corporate social and environmental conduct. In this case, GRI is a reporting indifferent facilitator and in that case a polluted company that reports its pollution, still rewarded as a reporting company. In the ETI Base Code, the motivation is different.

In depth examination of the GRI Standard Disclosures/Indicators and the ETI Base code, the highest resemblance between the two standards were noted in subjects of; **nondiscrimination, forced labor, freedom of association and collective bargaining agreements, Health & safety, child labor, Labor/Management Relations and human rights.**

The requirements were found practically identical at both standards and refer to all important aspects of the International Labor Law. Most of the differences referred



to the compliance level; GRI G4 guidelines refer to self-declaration of the organization, as opposed to the ETI Base Code which is subjected to the law requirements and third party auditing.

Nonetheless, significant gaps were found in social labor practices; **living wages** and **working hours**. While the ETI base code has very strict guidelines with regard to these aspects, the GRI G4 guidelines are very general, poor and don't specify any actual reporting guidelines.

With regards to **living wages**, the GRI G4 refers only to the ratios standard entry level wage by gender compared to local minimum wage at significant locations of operation. At the same time the ETI Base Code specify in details the requirements:

- All workers shall be provided with written and understandable Information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.
- Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned.
- All disciplinary measures should be recorded.

A similar problem arises with regard to working hour's aspect; at the GRI G4 guidelines there are no instructions at all which will define some basic general framework regarding the reporting of employees working hours. This matter is highly covered and detailed in the ETI Base code and the requirements are very clear;

- Working hours, excluding overtime, shall be defined by contract, and shall not exceed 48 hours per week.
- All overtime shall be voluntary. Overtime shall be used responsibly, taking into account all the following: the extent, frequency and hours worked by individual workers and the workforce as a whole. It shall not be used to replace regular employment.



- Overtime shall always be compensated at a premium rate, which is recommended to be not less than 125% of the regular rate of pay.
- The total hours worked in any seven day period shall not exceed 60 hours, except where covered below. Working hours may exceed 60 hours in any seven day period only in exceptional circumstances where all of the following are met:
  - this is allowed by national law;
  - this is allowed by a collective agreement freely negotiated with a workers' organization representing a significant portion of the workforce;
  - appropriate safeguards are taken to protect the workers' health and safety; and
  - the employer can demonstrate that exceptional circumstances apply such as unexpected production peaks, accidents or emergencies.
- Workers shall be provided with at least one day off in every seven day period or, where allowed by national law, two days off in every 14 day period.

The problem which arises from the gaps in these two sections and the failure of the GRI G4 to address these aspects, creates a sense of missed opportunity to report on important issues and gives some sort of loophole to organizations not to check themselves and relate to significant issues such as; correct payment to employees, non-deviation of normal working hours and overtime working hours etc. These issues are critical when addressing employees well-being and working conditions.

This paper suggests that through engaging SCAs and standards in the sustainability reporting process, higher transparency could be applied to promote increased awareness of labor conditions within the supply chain and may facilitate positive change, build trust, identify commitment and promote cooperation amongst stakeholders and corporations.

The current paper is an exploratory research which is aimed to examine the gaps and overlaps of the two methodologies. The current paper should be followed by a wider research which will explore a broader scope of Ethical Codes and the impact of brands requirements on the supply chain.



#### 4. About the authors of this paper:

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Alyason is a Certified Professional Social Compliance Auditor with years of combined experience in Social Compliance Audits, Factory Audits and Security Audits. Conducted audits for different industries such as; Plastic, Textile, Agriculture, Food, Consumer Products, Jewelry etc. Provide auditing (but not limited to) services for social compliance audits and provide training services to industrialists and

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Ortar is Managing Director of the Corporate Social Responsibility Institute (CSRI) which operates under the College of Law & Business (CLB). He is a very well experienced CSR practitioner, founder of consultancy firms, former advisor to a number of Israeli corporations

and the introducer of the GRI guidelines to the Israeli market. Ortar is also a lecturer of CSR and sustainability in local and international academic institutions.



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