

## 3.6 MANAGING ETHICAL TRADING DATA - Supplier Ethical Data Exchange (Sedex) – The Basic Foundations Of An Ethical Trading Programme

### 3.6.1 AUDIT FATIGUE: The Issue

During the 1990s, as more and more companies came under pressure to take responsibility for conditions in their supply chains, purchasing companies turned to social auditing as the best way to monitor their supply chains. Each company set up its own internal monitoring programmes, or commissioned third party audit firms to monitor their supply base. Suppliers of course tend to have several customers, and soon each factory was undergoing audits covering much of the same ground from each of their customers. In some cases, factories were having more than 100 social audits per year. Many of these audits were of poor quality. Good-quality social auditing can be useful in identifying issues, but there is clearly no benefit in duplication of effort.

### 3.6.2 IMPACTT'S WORK

In 2002, Impactt convened a group of retailers and suppliers to create a data sharing system which will allow participants to access information about labour standards in shared suppliers in order to:

- Build efficiency.
- Build cost-effectiveness.
- Concentrate effort on improving labour standards in the supply chain.

Impactt developed a draft data-sharing model based on the following principles:

- Subsidiarity: data to be held at the lowest practicable point in the supply chain using a password protected web-based system. Each supplier/site would be required to maintain a common-format password-protected webpage.
- Data owned and paid for by supplier/sites.
- Supplier/site controls access to data which may be made available to purchasers in a trading relationship.
- Development of shared, lowest common denominator, initial assessment, audit/assessment and compliance/improvement reporting frameworks.
- Checks and balances to audit the quality of data and the robustness of the system.

Over the next couple of years, Impactt worked with founder members to design and build the database and to develop the governance structure for Sedex as an independent not-for-profit limited company, owned and managed by its members. The Sedex Board is made up of 3 representatives elected by each of the member types, production sites, agents/brands and retailers. The Board is advised by an Advisory Group made up of individuals from industry, non-governmental organisations, trade unions and the ethical investment sector. The purpose of the Advisory Board is to enable Sedex to have a formal mechanism to engage with informed stakeholders and to seek independent and constructive advice, as well as helping Sedex develop its strategy to meet the needs of members and the wider stakeholder community.

Sedex was launched in 2004 and has grown to become the world's leading labour standards database. By October 2007, 16 retailers, 169 brands and importers, and in excess of 16,000 factories and farms in 132 countries had joined Sedex. Approximately 60% of sites on Sedex are from the non-food sector (clothing/homewares/accesso-

ries) and 40% from the food sector.<sup>29</sup> Sedex holds self assessment information, 2nd and 3rd party audit findings and corrective action plans. This means that purchasers can all work together on the same action plan with each supplier – which should mean that suppliers are receiving more consistent messages on corrective actions from their customers.

Sedex manages an Associate Auditor Group (AAG), which aims to encourage and enable convergence in ethical trade auditing, improve the quality of ethical data and promote the improvement of labour standards. The AAG is made up of independent commercial auditing companies and NGOs that are significantly involved in ethical trade auditing, with active participation from Sedex member companies. In response to challenges from Sedex members to provide a report format that can more easily be shared and gives more information about auditor qualifications and the audit process, the AAG has recently developed SMETA (Sedex Members Ethical Trade Audit). SMETA includes:

- A common best practice guidance on conducting ethical trade audits.
- A common audit report format.
- A common corrective action plan format.

### CHALLENGES AND LIMITATIONS

Whilst Sedex has succeeded in providing a widely accepted database for managing ethical trade, there are still widespread concerns that the many of the audits on the system are not of a sufficiently high standard to accurately diagnose key labour standards issues and to see through double books and coached workers. Sedex is also often criticised for lack of transparency about its activities to external stakeholders. The development of the Advisory Board and publication of more 'blind' data from the database will help to allay these concerns. It is clear that Sedex provides a useful management tool, but members must act on the data in the system in order to tackle problems and improve labour practices.

<sup>29</sup> Pers comm. Tara Norton & Hazel Culley, SEDEX, August 2007.

### 3.6.3 WHAT'S TO BE DONE?

#### What Production Sites Should Do:

- Consider joining Sedex.
- If already a member of Sedex, consider standing for the Board or one of the sub-committees to ensure that the production site perspective is well-represented.

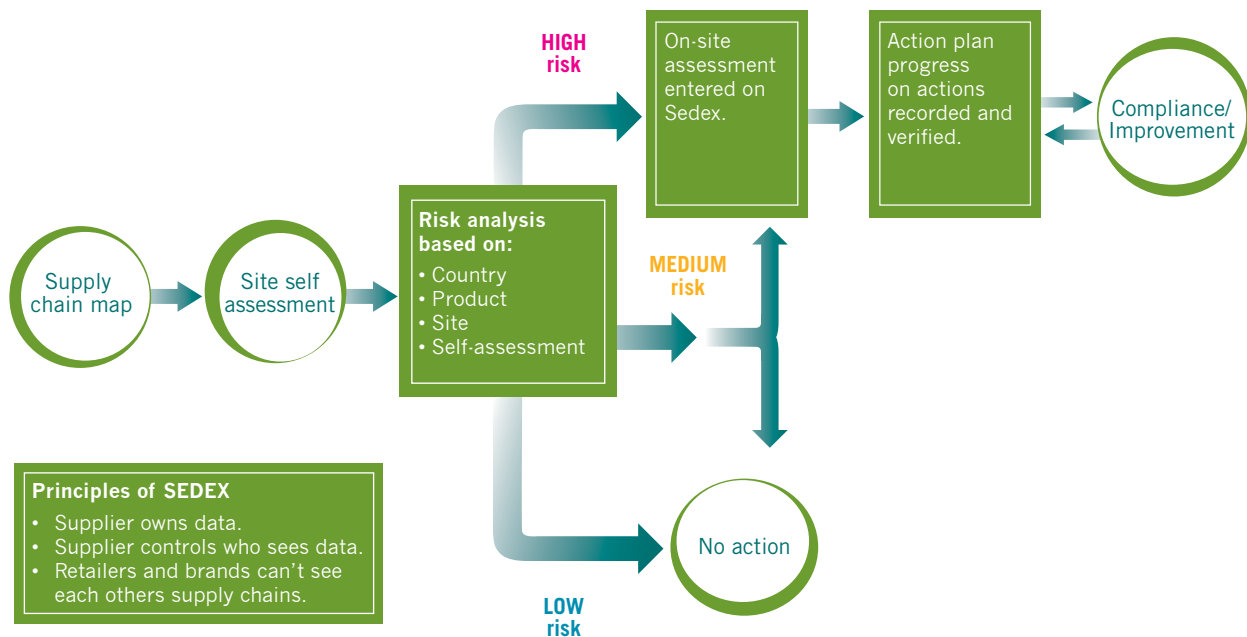
#### What Purchasing Companies Should Do:

- Join Sedex as part of a wider strategy of shifting from an audit-based approach to ethical trade to a capacity-building one.
- Use Sedex to conduct more sophisticated analyses of their supply bases and target their resources more

effectively at problem areas within their supply chains.

- Encourage Sedex to use its data in blind form to inform wider debate and encourage more collaboration in key sourcing countries to improve working conditions.

FIGURE 12: HOW SEDEX WORKS<sup>30</sup>



<sup>30</sup> Figure adapted from: SEDEX (2006) SEDEX Annual Review, SEDEX, London p.15