

July 2009

Dear Anna,

Let's Clean up Fashion report 2009 Submission

Thank you for the invitation to participate in the Let's Clean up Fashion report again this year. We appreciate the opportunity to update you on our progress in Ethical Trading and specifically on the subject of Living Wages.

As requested, this submission focuses primarily on the Living Wage but it is important to say that M&S is working on a number of other Ethical Trading initiatives, which we have included in the general section at the end of this document.

We agree that the topic of wages needs to stay on the ethical agenda in the current climate. We also agree that we need to send a strong message to consumers that ethical conduct is not expendable and have just launched our Do The Right Thing advertising campaign to raise consumer awareness. Importantly a wide range of independent organisations as well as our consumers do recognise that we take this subject very seriously:

Over the last few months we have been listed in the Top 100 Ethisphere World's Most Ethical Companies, been voted the Winner of the Most Ethical Retailer in the Cosmopolitan Magazine awards and achieved the Winner for Corporate and Social Responsibility by the Chartered Institute of Purchasing and Supply procurement awards.

We believe that all workers in our supply chain should earn enough money to meet their basic needs, whether they are paid on an hourly basis, piece rate basis or work in the informal sector, such as homeworkers. In addition, their earnings should provide some discretionary income, in line with our Global Sourcing Principles and the ETI base code.

In 2008 we undertook steps to fully understand living wages as it remains a complex area. These included:

- Reviewing all living wage benchmarks for our key sourcing countries;
- Conducting a detailed analysis of the wages currently paid in our supply base in our key sourcing countries;
- Carrying-out specific and more detailed work in Bangladesh, such as extensive worker interviews on wages, productivity assessments and training programme development for workers and supervisors.

Following this analysis we established the outline and objectives for the Model Ethical Factories programme which in essence was to create a holistic and sustainable solution to improve the conditions and livelihoods, and fundamentally, increase the wages of ALL workers in the factories and not just those making our production.

The three elements of the programme are:

- 1) Productivity Training to establish sustainable efficiencies improvements in manufacturing in order to increase capacity and profitability and therefore directly increase wages.
- 2) Worker rights training to enable the workers to understand their roles and responsibilities and those of the employer to establish effective communications

between workers and management.

- 3) Middle Management and Supervisor training in human resource management and organisational behaviour in order to improve industrial relations and ensure the workers are able to choose their own form of representation and that there is a mechanism for workers to be able to negotiate with management.

Timetable of events

Dec 07

- Supplier conference to consult with our suppliers and together establish a mechanism to sustainably increasing wages.
- Detailed wage analysis of our supply base in a number of our key sourcing countries, Bangladesh, Sri Lanka, India and China to identify an accurate picture of rates of pay for all workers in our supply chain including the number of workers receiving the legal minimum wage and the rates paid to the more skilled workers. The wage analysis was based on earnings within a standard working week. Overtime and worker benefits such as transportation, meals and holidays were not included in our research.
- The Institute of Development Studies carried out a series of workers interviews covering a comprehensive cross section of different household types in our supply base in Bangladesh to understand what the workers viewed as a living wage.
- Between March and June 08, an independent productivity consultant carried-out detailed productivity analysis and developed implementation plans to improve efficiencies and productivity in the manufacturing processes.

Jan 08 – Sept 08

- Programme concept detail developed for all 3 training elements above.
- Identification of suppliers to participate in the first phase of the programme. 3 suppliers nominated themselves which enabled us to trial the programme in factories with different parameters this would ensure the programme would be replicable and suitable for all types of factories in our supply chain.
- Key performance indicators were identified in all 3 factories in order to measure the impact of the programme after implementation.
- An anonymous worker survey was carried out in each factory to gather views on existing conditions, wage levels, understanding of rights and policies and general satisfaction of employment.
- Identification and engagement with training partners to implement the programme. Local organisations including an NGO/Social Development company and a business school, as well as world class consultants were chosen to deliver training and implement new processes.
- Planning and development of the training materials was done in conjunction with the above partners and the factories.

Oct 08 – Jan 09

- Productivity training, Worker Rights training and Supervisor/ Middle Management training was completed in the 3 model factories.

Feb 09 – June 09

- Implementation and cascading of the training and systems/ policies/ processes.

Sept 09

- Evaluation of improvements. Re-measurement and analysis of key performance indicators and repeat of worker survey. Impact assessment on workers. Worker interviews.
- Share the learnings and best practice from the first 3 Ethical Model Factories with the rest of our supply base in Bangladesh, ETI Living wage project group, all ETI members and other brands.

Results to date

By the end of May 09, we had invested in approximately 40,000 hours of worker rights and responsibilities training. 4650 workers across the three factories had received over 8 hours of training each on 19 topics relating to their rights as employees, such as harassment and length of working hours, as well as fair levels of pay. All supervisors and middle managers have received 14 hours of training, focussing on HR policies and procedures, Industrial relations and behavioural skills.

Early measurement of the key performance indicators show that significant improvements can be seen in communication between workers and management and the training has created a more conducive environment for open dialogue. Full evaluation and analysis will be carried out in Sept 09.

A further 6 of our factories have already started the roll out of this worker rights, supervisor and middle management training.

Across each of the 3 factories, 22 Industrial Engineers have received 93 days of training. As a result of the productivity training, significant changes have been made to several production lines across the three trial factories, in terms of line balancing and efficiencies. In only a few months, those lines have shown improved efficiency, which, by extending these changes to all remaining lines, is expected to equate to a significant increase in wages for every worker by reducing the ratio of helpers to skilled workers which has therefore reduced the total number of workers in Grade 7 at the lowest paid wages and an increase in basic wages (excluding overtime) in the region of 15%.

In addition, we are implementing new wages structures in each factory to reflect the improvements and incentive schemes are being developed to further motivate workers to receive additional financial benefits.

Next Steps

Following the evaluation phase of the first 3 participating factories in Sept 09, we will be rolling the programme out to our remaining factories in Bangladesh through out the remainder of 2009 and into 2010.

The next country we will be implementing the Ethical Model Factory programme in will be India and we hope to start the scoping exercise of supplier identification, training partner engagement and materials development by the end of 2009.

We have also committed to share the learning and best practice with the ETI through the Living Wage project group and to all ETI members in the September 09 GM caucus meetings. In addition, we will share the programme principles with other non-ETI brands and retailers.

As part of our regular monitoring programme we will particularly focus on checking workers wages to ensure this programme continues to be implemented.

As part of our cost negotiations going forward we will ensure that sufficient provision is made to ensure these wages are included.

General Section

Over the past year we have continued to increase our Ethical Trading activity to improve conditions in our supply base and have again been recognised as 'Leader' among the UK high street retailers in the recent ETI annual report.

Our Ethical Trading team now numbers 28 with regional compliance managers based in country to provide the best ongoing support to our global supply base to improve working conditions and labour standards.

Now in the third year of our Plan A initiative, we have further strengthened our Labour Standards commitments and these can be seen in our recently published 'How we Do Business' report 2009.

At an ILO/IFC conference in Geneva in April 09, we were pleased to see that the lobbying we had done in the 2008 has been successful and Bangladesh has now been included in the next round of countries to have the ILO Better Work programme rolled out.

Monitoring

As we detailed last year, all of our clothing factories are ethically audited annually. And while audits are essential for monitoring standards and the ethical status of our supply base, they are only one way of providing transparency of our factories. The audit process needs to mature in order to capture the reality of factories' ethical compliance and as such we are piloting different audit methods and ways of achieving this.

We believe that there needs to be a move away from audit compliance to drive more sustainable remediation and to help give the more responsibility back to the employer and help them develop more mature industrial relations with their workforce. The role of our regional compliance managers is helping to accomplish this through ongoing support.

- Since November 07 all of our independent ethical audits are carried out on a semi announced basis. These are conducted within a three week window. In addition, 25% of all the visits by our Regional Compliance Managers are done completely unannounced.
- We carried out a series of worker participatory audits in China for us to compare to the effectiveness of standard ethical audits and found mix results but in essence the current participatory methods enhance the findings in a traditional audit but by no means are they sophisticated enough to replace them yet.
- We have also worked with local NGOs on a range of multi-stakeholder audits and will continue to increase this process to gain a stronger understanding of workers views within our audit process.
- We have conducted a significant number of visits to homeworkers, often with the assistance of local, grassroots NGOs. This has helped us to better understand the situation within this particular informal sector, and we are involved in several initiatives, including those within the ETI Homeworkers Group to assess piece rate wages paid to homeworkers as well as overall decent working conditions.

Purchasing Practices

The way in which retailers buy from the supply chain and the related sourcing decisions have a great impact on workers. As such we believe it is important to give our buyers the necessary information and training in order to manage supplier relationships and integrate commercial targets with ethical requirements.

Last year we indicated that we were developing a new buyers training course. This has now been done with a Traidcraft and the Chartered Institute of Purchasing and Supply which will be rolled-out from Autumn 09.

In addition, we have introduced ethical ranking of suppliers which is used when making sourcing decisions.

I hope this information has given you a useful update of our ethical trading activities, which we continue to progress as part of our commitment to improve the livelihoods and conditions of those workers in our supply chain.

Kind regards,

A handwritten signature in black ink that reads "fmsadler". The signature is written in a cursive, lowercase style.

Fiona Sadler
Head of Ethical Compliance
Marks and Spencer plc