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Martin Hearson  
Labour Behind the Label  
38 Exchange Street  
Norwich  
NR2 1AX

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Dear Mr Hearson

Thank you for your email of 24 May 2007 regarding the LBL "Lets' Clean Up Fashion" report. I note your invitation to update you on improvements that we have made to our policy and practice on workers' rights since September 2006. Our ethical programme continues to evolve and I welcome the opportunity to share the developments with you.

### **Code of Conduct**

We have adopted the ETI Base code in 5 of our brands. Moreover, two of our brands, Topshop and Topman have adopted the Jo-In code this year.

### **Wages**

Arcadia continuous to support the principle of a living wage. Until practical industry guidance is established we rely on solid benchmarks specified by ILO conventions, the prevailing industry wage and the minimum wage set by law in the country from which we source.

While Topshop and Topman have adopted the Jo-In code, the sustainable implementation of the "living wage" is beyond the influence of one single Brand or Company. Until a sustainable implementation solution for the living wage is available we will apply "prevailing wage", a "negotiated wage" if such is available, or the default of the national minimum wage. Our two Brands will also continue to support and participate in multi-stakeholder initiatives, which endeavour to find a solution to the sustainable implementation of the "living wage". Through these two Brands Arcadia is exploring do-able and sustainable ways to improve the way it sources product.

**Freedom of Association**

Our code states, “Workers have the right to join or form unions of their choice and to bargain collectively. The employer should adopt an open attitude to unions”.

The Arcadia Group supports the implementation of parallel means of worker representation in countries where freedom of association is restricted by law. Arcadia continues in its policy of not penalising or discouraging workers from joining unions. We welcome any further dialogue with you, and other stakeholders on what the most appropriate parallel means are for certain jurisdictions.

**Methods of Monitoring and Verification**

The factory audit programme has been developed over the last twelve months and extended to bring it into line with current industry practice.

We work with some of the world’s largest international and reputable assessment and audit bodies to conduct independent audits at factories that produce goods for the Arcadia Group. The international audit bodies conduct their audits in the local language, with local auditors, against the Arcadia Code of Conduct.

**The Audit**

Initial audits are conducted as a full audit, in which the document review will involve at least 3 months and up to 1 year’s records.

Follow up audits will be primarily based on but not limited to the findings from the previous audit. Follow-up audits will always include a review of payroll and hours worked.

The Arcadia Group considers the input of employees as an integral component of the audit process. All findings and observations are verified through interviews with factory workers. All employee interviews are conducted in a private area. Under no circumstances will they be conducted on the production floor, or in the presence of the factory management or their representatives.

The interviews are representative of the gender mix in the factory as well as taking into account the mix of the departments present in the factory. Auditors will normally identify individuals for interview during the factory tour or as a result of observations identified in the document review.

At this stage in the audit programme, all audits are conducted on an announced basis. We recognise the value of unannounced audits and it is our intention to build into the programme a percentage of audits on an unannounced basis. We reserve the right to visit any of our factories at any time on an unannounced basis.

We understand the limitations of audits and as such we are investigating an alternative to audits, we are currently trialing factory assessments within two of our Brands.

### **Resources**

We have invested in outside professional resources to develop our programme. Mr Brian Whitters joined us in 2006, reporting to Mr Derek Mackay and is assisting Burton, Dorothy Perkins, Evans, Miss Selfridge and Wallis, on an interim management basis.

Mr. Patrick Neyts is assisting Topshop/Topman.

Topshop and Topman are piloting for the Group a new assessment, remediation and capacity building approach taking into account lessons learned from the vast experience residing within the industry and its stakeholders. As the pilot is in its earliest stages, it is too early to report the projected changes it will bring to those two Brands and the influence it will have on the rest of the Arcadia Group.

We have conducted a factory validation exercise on all Brands, and will conduct this exercise on a regular basis. Every factory will be validated annually, and the top thirty suppliers by Brand will be validated twice per year.

### **Communication, Training and Awareness**

We are conducting ethical briefings to all Brand suppliers.

These briefings are hosted by the individual Brand. Each session begins with an introduction by the board member who is responsible for the implementation of the Brand ethical programme. We then go on to:

- Outline the Arcadia Group Ethical Sourcing Programme
- Discuss the Arcadia Group Code of Conduct
- Agree supplier actions
- Explain common audit issues, and how to identify them
- The ETI have recently issued the “Secrets & Lies” DVD, we show this DVD and it has become an integral part of this briefing and the associated discussion on the need for clarity.

I recently briefed the Senior Management from our key Hong Kong/China suppliers on developments in our Ethical Sourcing Programme.

We have conducted an ethical briefing to our Hong Kong office staff. The main objective of this session is to share with the team the basic principles and practices of ethical sourcing and to review the background to factory auditing

- Outline the Arcadia Group Ethical Sourcing Programme
- Discuss the Arcadia Group Code of Conduct
- Agree supplier actions
- Explain common audit issues, and how to identify them
- The session reviews a stakeholder network

- The Arcadia ethical trading programme is then reviewed in detail followed up by a short review of the ETI Impact Assessment
- The session is completed by a discussion with the team on “what are my responsibilities”

Between 20/26 July 2007 we delivered four UK factory ethical workshops.

We are planning to hold factory ethical workshops overseas in our major sourcing countries.

All technologists have attended an ethical auditing training course. These training sessions include:

- An introduction to the history and background to ethical sourcing
- Impactt have released a DVD on “Child Labour Remediation in China. This DVD forms an integral part of the day’s activities;
- The attendees undertake a workers rights exercise focusing on what terms and conditions workers should expect in their factories worldwide.
- We review social compliance standards in conjunction with the Intertek “Social Compliance, what it means to you” DVD
- Main employment practices are then reviewed in conjunction with the Arcadia ethical trading programme.
- Being an Auditor
- Reviewing an audit.

All Buying and Merchandising staff have attended an ethical briefing session. The main objective of this session is to share with the Buying and Merchandising staff the basic principles and practices of ethical sourcing and to review the background to factory auditing:

- The session reviews a stakeholder network
- Impactt have released a DVD on “Child labour Remediation in China which forms an integral part of the day’s activities
- The Arcadia ethical trading programme is then reviewed in detail followed up by a short review of the ETI Impact Assessment
- The session is completed by a discussion with the buying and merchandising team on “what are my responsibilities?”

### **Other initiatives**

One of our Brands is piloting a programme with a focus on “empowering trade”. The intent of the programme is dealing with issues important to the stakeholders of the Brand, such as poverty alleviation and sustainable livelihoods of the people who make some of the Brands specific products. The programme focuses on a specific range of products so they contribute in a meaningful, yet realistic, way to the livelihood improvement of those who make the products under this programme. The programme is currently in a pilot phase

and it is too early to communicate any observations or lessons learned at this stage.

**Measurement**

We are extending the use of a balanced scorecard for suppliers. This will include an ethical dimension alongside the usual metrics such as quality, delivery and profitability.

The Ethical and Responsibility Programme is being integrated as a key element of the operational management of The Arcadia Group.

We will be piloting an ethical dimension to job specifications and competencies

We have reached out to other Retailers and Brands to study their ethical programmes, to adopt their best practices where appropriate and to learn from their mistakes.

I understand that you are meeting with my colleagues in August to discuss the content of this report. We realise that our programme will need to continue to evolve and as such we welcome any further dialogue with you and other stakeholders on how our programme can be improved.

Yours sincerely



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