Industria de Diseno Textil SA

TICKER:
BME:ITX

MARKET CAPITALIZATION:
US$ 101 billion

HEADQUARTERS:
Spain

6 OUT OF 20
Company's Overall Ranking

61 OUT OF 100
Company's Overall Score

Industria de Diseno Textil SA (Inditex) ranks sixth in the benchmark, with an overall score of 61 out of 100 points. The company is one of two companies scoring 100/100 on the theme of commitment and governance and is the only company that scores 100/100 on the theme of monitoring. Inditex has leading practices with regards to cascading its standards throughout its supply chain, including to homeworkers, and includes workers and unions in implementing corrective action plans. The company has significant potential to improve on all other themes, in particular on the themes of traceability and risk assessment, recruitment, and worker voice.

THEME LEVEL SCORE

Commitment and Governance	100 out of 100
Traceability and Risk Assessment	50 out of 100
Purchasing Practices	50 out of 100
Recruitment	33 out of 100
Worker Voice	29 out of 100
Monitoring	100 out of 100
Remedy	63 out of 100

LEADING PRACTICES

Cascading Standards Through the Supply Chain

Inditex discloses that "all Inditex sustainability policies and standards – such as the Code of Conduct for Manufacturers and Suppliers – apply to all suppliers and factories that make up the company's supply chain, irrespective of which tier they are or what process they do." Inditex requires suppliers to communicate and enforce its code with subcontractors and to report to Inditex the locations and working conditions of subcontracted homeworkers.

Corrective Action Plans

Inditex discloses that, following social audits, it establishes corrective action plans for each factory, regardless of the ranking they have obtained, which are monitored by local sustainability teams. The sustainability teams provide the necessary support and assistance to suppliers to implement those

plans and to remedy breaches detected during the audit. Corrective action plans "also feature participation by other parties involved, such as factory managers, factory workers, suppliers, NGOs, or local and international unions".

NOTABLE FINDINGS

Governance

Inditex discloses its sustainability department is responsible for implementing its supply chain policies, including those referring to human trafficking and forced labor. The director of the sustainability department, Felix Poza, reports directly to the CEO and Chairman of the company. The company has established a committee of ethics in order to ensure compliance with the code of conduct and to act as a whistleblowing channel for any compliance breaches. Inditex discloses which staff members are part of the committee. The committee responds to the board of directors, reporting on an annual basis as well as whenever is required by the board. In addition, the board of directors has a specific duty to ensure compliance with the company's sustainability principles.

Audit Process

Inditex discloses that it conducts unannounced supplier audits, performed by both internal and external auditors, to verify the degree of compliance with its code of conduct and to establish corrective action plans where needed. The audits include interviews with workers, as well as a review of relevant documents such as wage slips, labor contracts, time records, work permits, health and safety documentation, relevant policies of the company, etc.

Audit Disclosure

Inditex discloses that in 2015 it audited 97% of its suppliers using an audit methodology which it developed jointly with IndustriALL Global Union, and the Cambridge Centre for Business and Public Sector Ethics. For each sourcing country, Inditex discloses the number of suppliers falling into four categories of social audit results (A, B, C suppliers, corrective action plan suppliers), the number of suppliers trained, details on improving audit effectiveness in the country, and a summary on how workers were involved in audits. Further, Inditex discloses the approximate percentage of compliant factories by region and by topic (topics include forced labor).

OPPORTUNITIES FOR IMPROVEMENT

Traceability and Risk Assessment

While Inditex discloses the number of suppliers by region and the number of manufacturing factories including beyond the first tier by production category (e.g., fabric, cutting, dying, and washing), the company is encouraged to also disclose the names and locations of at least its first-tier suppliers.

Further, the company may consider conducting forced labor risk or impact assessments focused on specific commodities, regions, and/or groups and disclosing the risks identified throughout its supply chain.

Recruitment

While Inditex reports that all its suppliers must disclose the recruitment agencies they are using to Inditex, the company is encouraged to also require recruitment agencies within its supply chain to uphold worker rights and to encourage direct hiring. Inditex requires that no fees be charged during any recruitment processes conducted and is encouraged to disclose details or evidence of how it ensures such fees are reimbursed in the event that it discovers that fees have been paid. Finally, the

company may consider auditing recruitment agencies within its supply chain.

Worker Voice

In order to complement its monitoring system and enable the company to understand to what extent worker rights' are upheld in its supply chain, Inditex is encouraged to engage with workers outside of the context of the factories in which they work, either directly or in partnership with stakeholders. Further, the company is encouraged to disclose evidence of how it ensures that, where the rights to freedom of association and collective bargaining are restricted under law, "appropriate channels [are put in place] to ensure a reasonable and independent exercise of such rights.". Finally, the company may consider ensuring supply chain workers trust its grievance mechanism and to requiring suppliers to have in place a grievance mechanism for their workers and convey the same expectation to their suppliers.

COMPANY PROVIDED ADDITIONAL DISCLOSURE

Yes.