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Transparency driving sustainability

Starting point and glossary of amfori Transparency Toolkit

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This whitepaper is the starting point of amfori's series of toolkits on transparency. Supply chain transparency is increasingly important for organisations that want to be ready for the future. This document outlines the current global situation on transparency, the benefits it can bring and finishes with a helpful glossary of terminologies related to transparency.



Transparency – from trend to reality

Organisational transparency means sharing the right information with the right stakeholders, at the right time. As a concept, being transparent also implies open communication and accountability, which is why more and more stakeholders are asking for data and information related to an organisation's social and environmental impacts. Being transparent is a way for companies to build trust with their stakeholders and is an important tool in the journey towards increased sustainability. In this regard, transparency is not an end, but rather a means towards improving sustainability by building trust and ensuring accountability. The demands for transparency are growing and reaching more sectors. What started in a few key sectors is now expanding to touch upon all industries, with growing demands in terms of what kinds of information and level of detail is made available. Organisational transparency is expanding to include information about the supply chain and other indirect impacts.

Increased transparency is strongly connected with, and determined by, the availability of data and technological advancement. Due to rapid advances in technology, we can expect to see more demands for access to an

increasing amount of data, especially as tools such as blockchain, cloud computing and the Internet of Things (IoT) become more commonplace. These tools will help companies and their stakeholders to identify, measure and react to the negative, and positive, impact of supply chains.

As data becomes more readily available, a company's stakeholders (such as consumers, shareholders, government bodies, NGOs, employees and B2B customers) are all demanding more and better-quality information. This is the case for financial information, as well as Environmental, Social and Governance (ESG) data and more general information related to the sustainability of a company and, increasingly, its supply chain. We can expect companies to be increasingly held accountable for their ESG impacts in the future.

Growing demands around the world

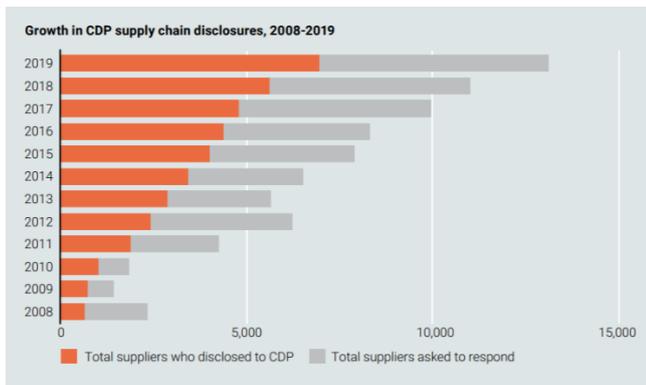
- **The European Union** has relatively strong regulations for non-financial reporting (since 2018) but critics argue that the current version of the directive does not require enough information from companies, which may evolve with the revision currently under preparation.
- In **China**, a growing number of Chinese companies are reporting their ESG performance—up from 200

in 2008 to more than 3,000 in 2019—however, [the quality of their reports is still questionable](#)

- In **North America**, where corporate reporting regulations are relatively weak, [large corporations are increasingly transparent](#) on their sustainability performance, as they respond to demands from other stakeholders including NGOs and customers
- For SMEs, [regulations on corporate reporting vary around the world](#) - in the United States and Canada, there are practically no audit and disclosure requirements for small businesses. On the other hand, small businesses in France need to comply with several disclosure regulations

Going beyond direct impacts – supply chain transparency

In the future, we can expect increasing demands for more information, from more companies on more topics – including on a company’s indirect impacts, such as the supply chain. This trend can be seen in the number of companies disclosing their supply chain impacts through CDP - a not-for-profit charity running the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.



Source: [CDP Supply Chain Report](#)

In the **garment and footwear industry**, stakeholders are increasingly demanding that companies [disclose information about their suppliers](#), and more and more are doing so — by publishing the names, addresses, and other important information about factories manufacturing their branded products. Such transparency is seen as a powerful tool for promoting

accountability and ensuring workers’ rights in the supply chain.

Benefits of Supply Chain Transparency

A well-known best-practice example in the apparel industry is Patagonia. Its [Footprint Chronicles map](#) shows information on raw materials, mills, and factories that make Patagonia products and highlights details on their suppliers operations and staff. In doing so, Patagonia is prepared to deal with increasingly stringent regulations, has reduced their reputational risk and increased their standing as a trustworthy organisation. [Another benefit is attracting and retaining employees](#) - Patagonia has very high rates of applications for their jobs as well as very low employee turnover, partly a result of their reputation as a responsible company. Patagonia cites its employee turnover as [less than 4% annually](#).

There are important [operational benefits](#) arising from increased supply chain transparency as well. Gathering and analysing information along the supply chain helps companies to identify opportunities for improvement and operate more efficiently.

What does it mean for amfori members?

amfori member companies will be impacted by increasing demands for sustainability related information. They need to be prepared to respond to these demands and position themselves as leaders to reap the benefits that increased transparency can bring.

Producers and suppliers will also need to prepare themselves for increasing demands for information. In the future, it will no longer be an option to opt out of sharing certain information – transparency will become a license to operate. In this regard, amfori has a role to play in supporting our members (in particular our smaller ones), agents and suppliers to help them prepare for this change.

What does it mean for amfori?

At amfori, we believe that increasing transparency will help companies build trust with their customers and stakeholders, improve supply chain efficiency and resilience, reduce reputational risk and support and demonstrate their sustainability efforts. This is why we made transparency a strategic priority for amfori and launched a project group in 2020 to work towards increased organisational transparency and to better enable our members to become more transparent.

Today, our amfori platforms create transparency and synergies among our members and their business partners by enabling them to share information about the social and environmental performance of producers, their progress in terms of trainings and corrective actions as well as their overall development journey (continuous improvement).

We are now taking some steps further, focusing our efforts in three main areas:

- delivering greater transparency within our organisation through governance bodies and towards members
- providing external transparency on amfori's impact, including both successes and challenges, and
- supporting and encouraging amfori members and producers to increase their own transparency

From 2021, we will measure our members' performance, including on increased transparency, and will communicate on our progress in this regard.

Highlights

Sector(s): All

All sectors will see increasing demands for transparency in the future – sectors facing a high level of attention currently include apparel & textiles, food, pharmaceuticals, and extractives

Geographical scope: Regional

Regulations and stakeholder pressure for transparency are arguably the highest in Europe. North American companies also face scrutiny, but regulations are weaker. In the developing world, transparency is not yet a key concern.

Timeline: Growing

- Corporate and organisational transparency is not new, it was already an emerging topic around the year 2000 and was, by some authors, even declared as its own “new era” by 2012. The link with sustainability, however, is a more recent trend and stakeholder expectations continue to grow. (Focus Right report, 2019)
- In the future, we can expect increasing demands for more information, from more companies, on more topics – including on a company's indirect impacts, such as the supply chain.

Risk or opportunity: Opportunity

Transparency gives companies the opportunity to build trust, engage with stakeholders and build their own narrative. It can also help to:

- Identify and address environmental and social risks
- Engage and build trust with all stakeholders - including customers, investors, governments, workers, communities, and others
- Comply with international and local legislative frameworks
- Work collaboratively with their suppliers and thus increase efficiency and optimisation.

Glossary

The definitions presented here are commonly used when discussing transparency and will help you distinguish and correctly use each terminology. Please beware that those are not official definitions, but collected from industry reports, publications and [amfori BSCI glossary](#)

Business Enterprise is an organisation involved in the trade of goods, services, or both to consumers or clients, regardless of their form of ownership or the way they are organised (limit liability, tax advantage or compliance criteria...). In the context of amfori, business enterprises are amfori BSCI and BEPI Participants and their business partners, particularly but not limited to producers whose social and environmental performance will be monitored.

Business Partner is any external party from whom products or services are obtained or with whom contracts are concluded for the provision of such products and services. This relationship may be contractual and may or may not require an exclusive bond. Within amfori BSCI and amfori BEPI, these are examples of business partners:

- A producer
- A supplier
- A customer
- A channel intermediary (such as an agent or reseller),
- A vendor of complementary offerings (for example, one party sells the hardware, while the other sells the software)

Due diligence It is the processes through which enterprises identify, prevent, mitigate and account for how they address their actual and potential adverse impacts (OECD). In the context of amfori BSCI and BEPI, it refers to preventive measures taken by individuals and business enterprises to adhere to a standard of reasonable care while performing any acts that could foreseeably harm others. Thus, due diligence is expected regardless if it is required by law or not.

Importer is a business enterprise purchasing goods in a first country to sell them to one or more customers in a second country. They have not produced the goods. The deliveries of the goods are made inside or outside the EU. For amfori purposes, an importer can be an amfori participant or a business partner.

Organisational transparency means holding your company accountable to the people you serve, as well as to the rest of your stakeholders. This means sharing successes and failures; encouraging, honouring, and engaging with public input; reporting about mission and financial stewardship; conducting third party audits; and monitoring and evaluating your operations. Transparent organisations intentionally share information beyond the board room with members and non-members alike.

Primary Producer is the producer located at the very beginning of the supply chain, for instance, a farm or a mine, responsible for extracting and supplying non-processed materials.

Producer is a business partner in the supply chain that manufactures a good (food or non-food) or produces raw material, using labour and machines, tools, chemical and biological processing, or formulation.

Transparency is the disclosure of timely and accurate information. It is about the ability of the receiver to have access to the information they need. Therefore, it requires honest and open communication. It is a metaphorical extension of the meaning that a “transparent” object is one that can be seen through.

Traceability is defined as the ability to trace the history, application, or location of an intended trade item/component/product (ISO 9001). It captures much more granular and operational information such as batch-lot and purchase order data. The focus is less on mapping the entire end-to-end supply chain than on following certain products or purchase orders as they move through the supply chain.

Supply chain is a coordinated system of organisations, people, activities, information, and resources involved in

moving a product or service physically or virtually from supplier to customer. For the purpose of amfori, the supply chain is made up of the chain of significant business partners.

Supply chain due diligence is an ongoing, proactive and reactive process through which companies monitor and administer their purchases and sales with a view to ensuring that they do not contribute to conflict or related adverse impacts.

Supply chain mapping is the process of creating a full picture of the companies and organisations within the supply chain at every tier. Mapping does not show the flow of goods among the actors to fulfil individual orders, but rather enables visibility of all the potential actors within each tier of the supply chain.

Supply chain traceability is the process of tracking the origin and journey of products and their inputs, from the start of the supply chain through end-use.

Supply chain transparency refers to the strategy of collecting and disclosing sourcing and supply chain information to stakeholders. This requires companies to know what is happening upstream in the supply chain and to communicate both internally and externally. In this way, companies can gain better visibility of their global supply chains and ensure compliance with safety, sustainability, and social responsibility requirements. It is a powerful tool to assert workers' human rights, advance ethical business practices, and build trust.

Supply chain transparency vs supply chain traceability: While supply chain transparency focus on mapping the end-to-end supply chain to establish specific requirements, collect information and communicate about it, supply chain traceability focuses on following certain batches of components or orders as they move through the supply chain, without necessarily having the objective of disclosing information about it.

In principle, transparency is needed before more granular, detailed information can be collected.

Stakeholder is an individual, community or organisation that is affected by and may affect some aspects of an organisation's products, operations, markets, industries, and outcomes. Stakeholders may be internal (for example, employees) or external (for example, customers, suppliers, shareholders, financiers, trade unions, NGOs, the media, the government, or the local community).

Subcontractor is an individual or legal entity that signs a contract to perform part or all the obligations of another's contract. In the context of amfori, it refers to the business partner, which is appointed by the producer, to take over - fully or partly - the final production of goods.

Supplier is an individual or legal entity that contributes to the provision of goods or services in a supply chain. They may or may not function as distributors of goods. They may or may not function as manufacturers of goods. They may not own the goods (e.g. agents, traders). They may own the goods (importers).

Sub-supplier refers to the business enterprise that contributes with goods to the producer or its subcontractors. However, sub-suppliers do not perform the contractual obligations of the producer.

Tier 1 companies are the final step before the product reaches the main business enterprise, which may then sell the final product to the end-user. In theory, there is no middleman after Tier 1 companies, and for being the last tier before the business enterprise, those must have proven to be reliable and to adhere strictly to safety and standards procedures. Therefore, they have the strongest credibility with the main business enterprise.

Tier 2 companies supply Tier 1 with the products it needs to supply the main business enterprise.

Beyond Tier 1 is an expression used in the supply chain sustainability arena to encourage companies to fully map their supply chain, instead of just the first tier.

About amfori

As the leading global business association for open and sustainable trade, we bring together over 2,400 retailers, importers, brands, and associations from more than 40 countries. Our membership contains organisations of all sizes and all sectors with a combined turnover of more than one trillion euros. Our mission is to enable each of our members to enhance human prosperity, use natural resources responsibly and drive open trade globally. These are major challenges and we need to work collaboratively to tackle them. Together we can influence and drive positive change at scale.

Legal Disclaimer

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