

# Improving Supply Chain Working Conditions

A commitment to safety, fairness, dignity and respect

We partner with all of our branded-apparel suppliers and other key stakeholders to help provide safe, fair and healthy working conditions for the women and men who create our clothes. Using a holistic approach, we implement a variety of programs for monitoring facilities and building supplier capabilities for improved working conditions, taking country-specific approaches where appropriate. Our [Human Rights Policy](#) guides our programmatic response to develop a supply chain that is resilient, responsive and respectful of the workers who make our products.



## Our Approach

Consumer trends and expectations are placing greater demands on production timelines and capabilities—which can ultimately affect the individuals working in the garment industry.

Gap Inc. has worked to develop and implement a robust program for assessing and remediating issues in sourcing facilities, and in recent years has developed a suite of capability building programs. Having in-country field teams enables us to closely monitor facilities according to our Code of Vendor Conduct, allowing us to have thorough, on-the-ground insight into how our suppliers perform and what salient issues workers in our supply chain face. Given the need for industrywide collaboration, in some cases we partner with other brands to improve

results for garment workers.

Our goal is to design and implement industry-leading programs that can help drive innovation that transforms the apparel manufacturing sector. In partnership with our suppliers, NGOs, multilateral organizations and other stakeholders, we're establishing initiatives that are multifaceted and focus on a range of interventions: improving worker and management relations, innovating how we assess and improve working conditions, and using technology to directly engage with and respond to workers' needs.

## THE SHORT STORY

# SUPPLIER SUSTAINABILITY

- We work with governments, NGOs, trade unions and others to forge innovative solutions to systemic issues.
- We have consolidated our supplier base by 25% so that we can work more closely with fewer suppliers.
- We have built a holistic sustainability team so that all of our field staff can support progress with suppliers.

Since launching our Supplier Sustainability program in 1994, we have transformed our approach to improving facility working conditions by developing innovative, holistic programs that go far beyond assessing and remediating issues in our approved facilities. Today, Our Supplier Sustainability program combines two important elements:

**Assessment and Remediation:** Our approach to improving working conditions is based on transparency, partnership and innovation. We believe that by working together, we can achieve our commitments to improve

workers' well-being, protect human rights, reduce environmental impacts and improve business performance.

**Capability Building:** In partnership with our suppliers, we developed a suite of programs that aim to develop facilities' capabilities for worker representation and leadership involvement. By coordinating with external partners, NGOs and our suppliers, initiatives such as our Workplace Cooperation Program and Workforce Engagement Program mature industrial relations in facilities and provide functioning grievance mechanisms while also measuring and improving the degree to which garment workers feel valued and engaged at work. In addition to our cornerstone programs, we manage or participate in a broad set of initiatives that address country-specific labor issues. Our life-skills program, P.A.C.E., gives women training and support to advance in their professional and personal lives.

We continue to integrate policies and programs into our core business and form partnerships across the apparel industry to ensure that the people in our supply chain work in safe, fair conditions.

Our Supplier Sustainability efforts historically have focused on issues at cut-and-sew facilities where we have direct relationships and greater influence to drive improvements. We also monitor, assess, remediate and disclose their supporting facilities, such as laundries, embroideries and screen printers. However, in recent years we have evolved our strategy to address issues in other parts of our supply chain, including areas where we have less direct influence but nonetheless see opportunities to improve working conditions. For instance, we are working with our strategic mill suppliers to assess their working conditions and build their capacity to proactively mitigate risks, and we are seeking to improve conditions in the cotton sector through our partnership with the Better Cotton Initiative.

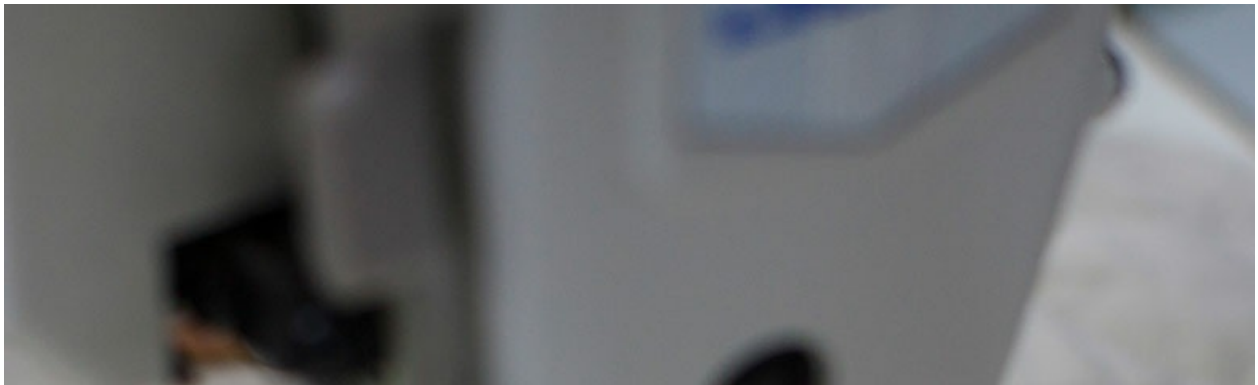
Achieving our goals requires innovation and closer partnership with suppliers and their facilities that manufacture our branded product. At the same time, more assistance, better tools and added capability building services are provided to suppliers to help them improve their sustainability performance. One of our responsibilities in a partnership model is to clearly establish and communicate all of our expectations to our supply chain partners. To that end, we have evolved our Code of Vendor Conduct (COVC) to provide our supply chain partners with more clarity on our standards, goals and expectations.

Our [COVC Supplier Manual](#) – which is a comprehensive manual that provides guidance and insight into how facilities can meet the standards outlined in our COVC – is reviewed on an annual basis to reflect best practices. It is incorporated into our Vendor Compliance Agreement, which is signed by all our manufacturers. We request supplier and worker feedback and partnership along the way, and expect continuous improvement from ourselves, and our supplier partners. While assessing facilities' performance against our COVC is a significant aspect of our work, we are also a consultative resource and strive to help our suppliers prevent and solve problems as well as innovate to identify new solutions.

Our Global Supply Chain and Supplier Sustainability teams work in about 30 countries and we often tailor our practices in these places based on a deep understanding of the local context. In addition to our Assessment and Remediation program (described below), which we maintain for every supplier and facility wherever we source our branded clothes, we have created unique programs and specific policies to address local economic, political, business and cultural context where needed. These assessments include social, political and environmental data, along with risk indices and expert analysis. They also draw on the insights we have gathered through ongoing engagement with a variety of external stakeholders and business partners.



Watch “Made in Bangladesh”







### Assessment and Remediation

The success of each assessment depends largely on the willingness of the facility management to provide access to a facility's grounds, records and workers. We believe that transparency is crucial for the long-term health of our business relationships and ask that all our vendors and facilities embrace this as a core aspect of our partnership. Our focus is on assessing sustainability performance and helping to identify areas for improvement, which can only be done if we understand the true working conditions and environmental impacts in the facility.

We primarily evaluate factories through our own field team's assessments, though we do work with third parties such as Elevate for assessments in Pakistan, and with International Labour Organization Better Work in countries where they operate. Our global field team is located primarily in the countries from which we source, giving us a direct, on-the-ground understanding of worker needs and facility performance.

We recognize that every country and every facility is different and so our assessment team is trained to assess facilities according to the local environment. Facility management is expected to provide their full support and access for the assessors to carry out all assessment activities. Facilities shall allow Gap Inc. representatives or agents unrestricted access to its facilities for observation, workers for interview and relevant records for review, whether or not notice is provided in advance. Any form of restriction during our assessments will be considered a

critical COVC violation and will negatively impact facility's rating, and may lead up to termination of our business relationship.

Our Supplier Sustainability Assessment Manual, which is based on industry best practices, outlines the protocols our team uses to assess and remediate issues related to labor or working conditions. Each fiscal year, our team conducts a full assessment for all active manufacturers of our branded product to understand working and labor conditions, facilitate greater partnership with our suppliers and improve sustainability performance. Each assessment includes interviews with managers, confidential interviews with workers, visual observations and reviews of documents and records.

We conduct announced, unannounced and semi-announced assessments. Depending on a multitude of factors, including transparency, commitment to continuous improvement and a proven ability to effectively and sustainably remediate issues, notification of assessments will vary. Roughly 50% of our assessments are unannounced.

Our assessments can be classified as one of the following types, and are further detailed below:

**Initial Assessment:** The first full assessment carried out for a facility that has been offered for assessment and approval.


**Full Assessment:** Assessments that cover all sections of Gap Inc. COVC. At least one Full Assessment is conducted for all active, approved facilities each fiscal year (February 1st to January 31st), unless otherwise specified for certain categories.

**Follow-up Assessment:** Assessments carried out to assess the progress made by facilities on the issues identified during the Initial Assessment or Full Assessment. New issues may also be found during follow-up assessments and those are also recorded and reported.

## SUPPLIER SUSTAINABILITY

# GOALS

- Achieve a sustainability rating of green or yellow for all Tier 1 suppliers by 2020
- All Tier 1 suppliers transition from cash-based payments to digital payments by 2020

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- Implement our Workplace Cooperation Program in 200 facilities by 2020
  - 100% of Gap Inc.'s Tier 1 suppliers are investing in worker engagement and well-being initiatives by 2020

When we assess a facility, they receive a rating that is calculated based on clear criteria within five categories: Compliance with Laws, Environment, Labor Standards, and Occupational Health and Safety, though we also review Management Systems. We employ a facility rating system that offers gradients of non-compliance that correspond to different severity levels. Violations are input into a system that categorizes findings by their level of severity: “critical,” “severe,” “key” and “noncompliant.”

We use a color-coded system to rate facilities’ performance based on assessments. High-performing facilities with no critical or few violations receive a green rating. Average performers are rated yellow, while facilities that need improvement on one or more serious issues are assigned a red rating. Critical, severe and key violations have a greater negative impact on a facilities’ rating than “non-compliance” violations, such as first-aid kits not being fully stocked.

A key tenet of our approach to partnering with facilities is that we work to fix what we find.

## 2018 Progress

In 2017, Gap Inc. set a goal not to work with any red-rated facilities by 2020. We have made significant strides toward this goal, moving from 16 percent red-rated facilities in 2016 to less than 2 percent by the end of fiscal 2018. By integrating this work more deeply into our sourcing decisions and concentrating our business with preferred vendors, we were able to increase our investment to help facilities close out COVC violations in a sustainable, responsible way. In addition to a dedicated Supplier Sustainability team that engages directly with facilities on these issues and targets, we train global sourcing employees on human rights policies and procedures, building companywide awareness on COVC requirements, and collaborating internally to manage vendor performance and drive sustained performance. Through training and education, we also work closely with key vendors to build their capacity for continuous improvement and help them implement proactive measures that will prevent COVC issues from arising in the first place.

We have created internal systems to develop a close partnership between our Supplier Sustainability, Global Supply Chain and Data Insights teams. This integration with sourcing and data analysis allows us to track and analyze major trends as well as the effectiveness of our programs. When we identify concerning trends or hotspots, we develop specific action plans to build awareness with our suppliers, collaborate with all affected stakeholders and formalize systems to address the issue.

Beginning in 2017, we raised the bar for our facility approval process and no longer allow red-rated facilities (based on their preproduction assessment) to be approved by Gap Inc. for production. In the past, we approved red-rated facilities if they resolved the issues in question within a certain timeframe.

We also changed our approach to assessing red-rated facilities. Rather than waiting one year after our full assessment to reassess red-rated facilities, we work with them to develop a time-bound corrective action plan and evaluate them again at the end of the agreed-upon timeframe to determine whether they have successfully achieved the required remediation. This approach allows us to work more closely with facility management to ensure that they are making the necessary investments and adjustments to their practices.

In 2018, we saw encouraging success with our efforts towards our goal of 100 percent green- and yellow-rated facilities. We also recognize that at any given point in time, some facilities may slip below our COVC standards; we are committed to continuing to monitor and working closely with our suppliers to remediate issues. Achieving a baseline performance level allows us to keep a closer eye on concerning issues and focus on capability building programs such as enhancing bipartite committees (our Workplace Cooperation Program) and soliciting direct worker engagement (our Workforce Engagement Program).

## Results

### Issue Clarification and Performance Measurement

A key tenet of our approach to partnering with facilities is that we work to fix what we find. Together with facility management, we agree on specific, time-bound corrective action plans to address findings, and we provide additional resources to fix the issues that pose higher risks to workers' rights and well-being, as well as to our business. Based on the severity of issue, we outline a timeline within which we expect the facility to fully remediate. To ensure sustainable resolutions of issues, facilities are encouraged to conduct root cause analysis of issues and to present corrective actions that address the root causes. Some issues may require multiple progressive corrective actions for resolution. In such case, each corrective action shall have a target completion date. We also collaborate with local stakeholders who have direct access and influence to improve conditions.

The Corrective Action Plan submitted by each facility must include the following information:

1. A plan to address findings which are noted in the Assessment Report from Gap Inc.
2. Specific Corrective Actions to eliminate the cause of finding. This could include developing or updating written policies or procedures, capability building and any other relevant actions.
3. If Root Cause Analysis has been conducted, Corrective Actions should target the root cause(s) identified.
4. Information on who is accountable for each Corrective Action implementation at the facility.
5. A deadline for completing each Corrective Action.

The Gap Inc. assessor will follow up with the facility on the Corrective Action Plan according to the timeline set by the facility. The facility is responsible for sending to the Gap Inc. Supplier Sustainability Specialist evidence of



corrective actions taken as per the timelines for each issue reported in the assessment report. The assessor will review the evidence submitted and update the facility whether the issue can be resolved by offsite review of evidences, or if an on-site verification is required.

We monitor progress through follow-up assessments. Should there be outstanding or overdue issues, our Supplier Sustainability and Global Supply Chain teams escalate further intervention. However, if critical or severe issues remain unresolved, we may halt future order placement or discontinue the supplier relationship.

We closed 88 percent of issues within 12 months, for ones that were open as of February 2, 2018.

For all rating levels, 65 percent of issues open at the beginning of fiscal 2017 were resolved within six months. 91 percent of issues were corrected within one year, and 93 percent within two years.

### Resolution of Factory Code of Vendor Conduct Issues Open as of 2/1/2018

	2/1/2018	5/1/2018 (3 MONTHS)		8/1/2018 (6 MONTHS)		2/1/2019 (1 YEAR)
Sourcing Country	# of open issues	# of open issues	% resolved	# of open issues	% resolved	# of open issues
Bangladesh	457	375	18%	201	56%	79
Cambodia	281	238	15%	178	37%	70
China	602	293	51%	156	74%	60
Guatemala	1	0	100%	0	100%	0
India	371	303	18%	185	50%	90
Indonesia	462	286	38%	98	79%	21
Pakistan	177	80	55%	63	64%	10
Sri Lanka	104	95	9%	48	54%	19
Vietnam	743	538	28%	320	57%	43
Other	191	152	20%	91	52%	11
Total	3,389	2,360	29%	1,340	60%	403

### Initial Assessment

When there is a request to work with a new supplier, Supplier Sustainability Specialists conduct an initial on-site

When there is a request to work with a new supplier, Supplier Sustainability Specialists conduct an initial on-site assessment of the requested facility. Upon review of the facility assessment report, Global Sustainability will notify the vendor and Gap Inc. supply chain representative of one of the following decisions:

- Corrective Action Needed
- Approved
- Rejected

If Global Sustainability informs a vendor that corrective action is needed before a facility can be approved, the facility may be given the opportunity to take appropriate steps to gain approval. Global Sustainability must determine that all corrective actions have been satisfactorily taken, or identified non-compliance issues have been satisfactorily resolved before a facility can be approved for production.

An approved facility will be authorized to begin production only after a written approval letter is issued by the Global Sustainability department upon successful completion of the approval process which may include other processes such as technical approval or Gap Inc. Water Quality Program (WQP) approval. Rejected facilities are not authorized to produce for Gap Inc., and the rejected facility cannot re-apply with an approval request within 12 months from the date of rejection.

### **On-Site Assessment**

During each assessment, information is gathered from management interviews, confidential worker interviews, visual observation, and documents/records reviews based on a minimum sampling. The size of Gap Inc.'s assessment team will depend on several factors.

A full assessment can require 1-4 person days, depending on the number of workers employed by the facility. For smaller factories, our assessors may conduct confidential interviews with 5-15 individual workers, while also interviewing groups and management. For a larger facility, we may conduct as many as 30-50 individual worker interviews, both onsite and offsite. Workers are selected for interviews based on facility demographics, such as gender, to ensure inclusive representation. During the assessment, the team will assess facility expectations, working conditions and examine worker files for compliance, completeness and accuracy, as well as time and wage records.

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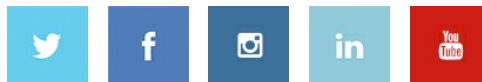
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