



Fair Wear Foundation

Management system audit report

Filippa K

2009-12-16

FWF member since: 1 March 2008

Sources of information

A: Database FWF

B: Annual report and work plan

C: Archived documents

D: Anders Wiberg (Supply Chain Manager)

E: Doreen Chiang (CSR responsible / Head of production)

F: Ulrika Appelberg (Production manager)

Audit conducted by:

Henrik Lindholm



Index

1. Introduction	3
2. Executive summary	4
3. Positive findings	4
4. Sourcing	5
5. Coherent system for monitoring and remediation	6
6. Complaints procedure	6
7. Improvement of labour conditions	7
8. Training and capacity building	9
9. Information management	9
10. Transparency	10
11. Management system evaluation and improvement	10
12. Basic requirements of FWF membership	10
13. Recommendations to FWF	11



1. Introduction

In December 2009 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Filippa K. The MSA is a tool for FWF to verify that Filippa K implements the management system requirements for effective implementation of the Code of Labour Practices, as specified in the FWF Charter.

Starting point for the MSA has been your work plan for 2009. FWF tailored the MSA to the specifics of the management system of Filippa K in order to assess the key issues of interest. During the MSA, employees of Filippa K were interviewed and internal documents have been reviewed.

FWF developed this report on the basis of findings collected during the MSA. The report contains conclusions, requirements, recommendations and an annex which includes detailed findings. If FWF concludes that the management system needs improvement to ensure effective implementation of the Code of Labour Practices, a requirement for improvement is formulated. The implementation of required improvements is mandatory under FWF membership. In addition, FWF formulates recommendations to further support Filippa K in implementing the Code of Labour Practices. The numbering of the requirements and recommendations correspond with the numbers of the conclusions.

This report focuses on those aspects of the management system of Filippa K that have been identified as key areas of interest for 2009. As FWF approaches the implementation of the Code of Labour Practices as a step-by-step process, it is well possible that MSA reports of subsequent years will focus on different aspects of the management system.

FWF invites Filippa K to comment on the content of the draft report. Subsequently the report is made definitive.

FWF will publish the conclusions, requirements and recommendations of all MSAs on www.fairwear.org. The annex with detailed findings will remain confidential. FWF encourages Filippa K to include information from the MSA report in its social report.



2. Executive summary

Filippa K started its affiliation to FWF in March 2008. During the year Filippa K had an ambitious program of auditing as well as trainings for staff at both management level and in shops. By the end of 2008 Filippa K had audited over 30% of production. With an estimated additional 60% in low risk countries, Filippa K exceeded the factory audit requirements for that year.

At the end of 2008 Filippa K got a new management and a restructuring of the company as well as strategy began. During 2009 the work with implementing the FWF Code of Labour Practices has focused on following up the audits done during 2008. Since future strategy and working methods were not chosen yet, other work FWF activities had a break.

The fact that 2009 has been a year of restructuring for Filippa K, the work with FWF has slowed down. However, individual product managers have followed up corrective actions from the audits done during 2008 at their factory visits. One complaint filed from a worker at a Chinese supplier has also been under investigation during 2009. The situation is not yet resolved and plans have been made for further dialogue with the management of the supplier in 2010.

3. Positive findings

Conclusions
1. Filippa K took extensive measures to inform and educate staff during their first year of membership.
2. Filippa K started their affiliation to FWF with an ambitious audit plan. Combined with a large proportion of production being sourced from low risk countries, this puts Filippa K well beyond the level of monitoring required at this stage of their affiliation.
3. Filippa K is collecting feedback from suppliers on Filippa K's performance towards the suppliers.

Recommendations
During 2010 the work with implementing the Code of Labour Practices should again be given priority again. Systems built up and efforts made during the first year of affiliation risk being lost if the work is put on hold for another year.

4. Sourcing

Conclusions
1. There is no written sourcing policy to support effective implementation of the Code of Labour Practices. However, it is stressed by management that all policies should be followed in sourcing, and this includes the Code of Labour Practices.
2. Working conditions and the willingness of suppliers to cooperate on improvements are discussed with new suppliers and there is a continuous dialogue regarding these issues during the continued business. However, there are no formal criteria for new suppliers except for signing the code.
3. Filippa K systematically evaluates suppliers and gives them points according to communication, samples, production, deliveries, prices and services/extras. Code compliance is not explicitly mentioned in this system for evaluation.
4. Filippa K has so far not made an investigation into if delivery times and the pricing do not lead to excessive overtime and give space for wage increases where this is needed. However, there is awareness within the company that these factors play a role in the implementation of the Code of Labour Practices.
5. Filippa K is now collecting feedback from the suppliers in a systematic way by sending out questionnaires.
6. Filippa K is moving production from Europe to Asia because a combination of better prices and business conditions there. 10% was moved over the last year. There are plans to move a bigger part of production to Vietnam.

Recommendations
1. A written sourcing policy / strategy that take code implementation into account can give buyers a clearer incentive and mandate to take social aspects into account.
2. Filippa K could look into how code aspects can be taken into account in sourcing decisions in all parts of the company so that good code compliance is rewarded by for example more orders or a longer cooperation.
3. Filippa K should look into how it can incorporate suppliers' code compliance into the supplier evaluation tool, for example by rating suppliers on performance on implementing CAPs, communication on improvements etc.
4. FWF recommends that Filippa K, in cooperation with factories, assess to what extent its current delivery times allow for finishing orders without use of excessive overtime. It is useful to ask factories where excessive overtime is found during audits to carry out a root cause analysis on the factors causing excessive overtime. The plan should explain how and to what extent the factory can control overtime hours, and to what extent Filippa K (and possibly its other clients), could help remediate this problem.

5. Coherent system for monitoring and remediation

<i>Conclusions</i>
1. In total 34,65% of the supplier base has been audited according to the supplier registers updated. A further 60% is produced in low risk countries.
2. All corrective actions from factory audits done are divided into four categories depending on difficulty in solving and costs associated with solving the problems.
3. Production managers have followed up the corrective action plans from the audits at factory visits and through correspondence with suppliers. How in depth this has been done has been up to the individual production managers.
4. For 2009 there is no total overview of how follow up is going at audited suppliers. Production managers have individually kept track of how well suppliers have implemented the corrective action plan.
5. Filippa K has not cooperated with other customers of manufacturers regarding monitoring and the execution of Corrective Action Plans at their suppliers.

<i>Requirements</i>
2/4. Follow up should in the future be done in an organized manner to ensure that all corrective action plans are properly followed up on. To make sure that systematic non-compliances are dealt with appropriately, a person at Filippa K should be designated to have the overview of non-compliances at different factories.

<i>Recommendations</i>
5. Filippa K should look into the possibility of cooperation with other customers at their suppliers regarding implementation of corrective action plans. In this way the company can improve its chances of creating change and decrease the risk of over auditing.

6. Complaints procedure

<i>Conclusions</i>
1. During 2009 the individual product managers responsible for the different suppliers have been responsible for following up complaints received.
2. Filippa K received a complaint from a worker at one of their Chinese suppliers via FWF on the 28 th of April. The worker complained about that the factory prepared falsified payroll records and forced workers to sign fake pay slips whereas the actual wage is lower. On April 29 th an investigation plan was sent to Filippa K. The outcome of the

investigation was sent to Filippa K on the 21st of July, concluding:

FWF found that the complaint which was filed by the plaintiff (workers are forced to sign fake pay slips whereas the actual wage is lower) was not grounded. However it was found that management of the supplier systematically falsifies pay slips and payroll records when clients are doing social audits. It was also found that the factory makes use of excessive overtime and that workers are not properly paid for overtime hours.

Filippa K has communicated both directly and through its agent with the supplier regarding the complaint and the outcome of the investigation, but the management has not been willing to accept the outcome of the investigation and hence the improvement plan. On 1st of September, on the request of Filippa K, FWF sent suggestions on how this complaint can be followed up further with the supplier.

During the autumn the agent of Filippa K had talks with the suppliers, but was not able to come to an agreement with the management on how to proceed or what the major issues were.

FWF agreed with Filippa K to find a local resource person who could help the company in the further dialogue with the supplier. FWF has suggested a person for this task. Filippa K informed FWF that it will propose a date for this meeting. This will be realised in the beginning of 2010.

3. Communication between FWF and Filippa K regarding the complaint has not been clear at times. From both sides expectations of what the other part needs to do have been unclear.

- Requirements**
1. The work plan of Filippa K for 2010 should clearly state who is responsible for handling complaints.
 2. If outcome from the meeting with the local resource person does not show any progress, Filippa K should make a plan with further measures to take and a timeframe stating when these measures should be taken by the supplier.

- Recommendations**
3. Since communications and expectations between FWF and Filippa K have not been smooth, it is suggested to have a workshop with FWF on how to handle complaints and cooperate better in the future.

7. Improvement of labour conditions

- Conclusions**
1. In December 2009, Filippa K had done 7 factory audits at 6 different factories between 2007 and 2009. Five of these audits were done with FWF audit teams. The analysis below focuses on the factory audits done by FWF teams. Based on results of



audits carried out by FWF teams, FWF has drawn up an overview of labour conditions in factories. The overview only looks at audits conducted by FWF audit teams and not follow-up conducted by Filippa K staff. This overview is annexed to this report.

2. One example of a checklist used internally by Filippa K to follow up corrective action plans was provided to FWF. Examples of improvements in this checklist included conducting a fire drill, posting evacuation route maps, putting up warning labels on chemicals, training workers for chemical handling.

3. In China three factories were audited. The FWF Code of Labour Practices had not been posted in these factories and management and workers were often unaware of the code. In all three factories audited there indication of falsification of documentation making verification of working hours and wages very hard. All three factories also received remarks for excessive working hours. Points for improvements were also found regard to fire safety at two of the factories. A general problem was also that factories do not have ergonomic programs. In two of the factories a significant share of workers is not covered by correct insurances.

4. In Turkey one factory was audited by a FWF team on behalf of Filippa K. At this factory the Turkish Social Security Administration does not receive correct information on wages and working hours from the factory, which is a very common non-compliance in Turkey. Workers also did excessive overtime. Some personal protective equipment was missing as protective parts of some machines. Some health and safety routines such as health and safety trainings and periodical controls of the water filtering system were not in place. Workers were generally unaware of their rights at work and specifically about the right to organise and bargain collectively.

5. In Romania one factory was audited by a FWF team on behalf of Filippa K. The code was not displayed or known by workers and there was no grievance system for the workers in the factory. The wage system was not transparent to workers and over-time not correctly paid. Fire exits open inwards and one fire exit blocked. Some health and safety routines such as periodic evacuation drills for emergency situations missing.

Recommendations

2. FWF recommends that Filippa K further its approach to agree and follow up on corrective action plans in cooperation with factories.

3. The establishment of an independent workers committee is an area for improvement in the majority of the factories that have been audited. FWF therefore recommends that Filippa K consider facilitating factory trainings that aim at improving social dialogue on factory level. FWF can recommend organisations that could carry out factory trainings.

3/4. FWF recommends that Filippa K, in cooperation with factories, assess to what extent its current delivery times allow for finishing orders without use of excessive overtime. It is useful to ask factories where excessive overtime is found during audits to carry out a root cause analysis on the factors causing excessive overtime. A remediation plan should regarding over time should look at how and to what extent the factory can control overtime hours, and to what extent Filippa K (and possibly its other clients), could help remediate this problem.



8. Training and capacity building

Conclusions

1. Staff of Filippa K been informed about FWF affiliation and the implementation of the Code of Labour Practices during trainings 2008. During 2009 there have only been trainings on FWF for new employees as a part of the introduction program.
2. Agents have been informed about FWF affiliation and the implementation of the Code of Labour Practices, some of them are actively helping Filippa K in the implementation of the Code of Labour Practices.
3. Manufacturers are informed about FWF affiliation and the implementation of the Code of Labour Practices by the product managers and through filling out the questionnaire.

Recommendations

1. It is recommended that Filippa K restart some of the training activities to keep staff up to date on the work with implementing the FWF Code of Labour Practices.

9. Information management

Conclusions

1. The person responsible for CSR is in charge of keeping the supplier register updated.
2. The supplier register submitted to FWF did not contain correct addresses to all suppliers and the percentages showing the relative importance of suppliers was not completely correct.
3. Information regarding the implementation of the corrective action plans is kept on the computer of the individual product managers responsible.

Requirements

2. The supplier register submitted must contain the correct contact details to all suppliers / production sites.

Recommendations

3. Make sure information on how well the factories perform on code issues is made centrally available for purchasing and CSR staff.

10. Transparency

Conclusions

1. Filippa K informs the public about its FWF affiliation on its homepage.
2. The annual social report from Filippa K of the previous year has been received, however it has not been placed on the website of Filippa K

Requirements

2. The annual social report of Filippa K should be made available online.

11. Management system evaluation and improvement

Conclusions

1. Filippa K annually evaluates their suppliers, in this evaluation, performance on CSR issues is included and grades are given to their performance. During 2009 there was no such evaluation meeting however.
2. Filippa K is now collecting feedback from manufacturers to evaluate, among other things, prices and lead times.

Recommendations

1. There should be an annual evaluation of the effectiveness of the work with implementing the Code of Labour practices.

12. Basic requirements of FWF membership

Conclusions

1. Work plan for the current year has been received
2. Membership fee for the previous year has been paid



13. Recommendations to FWF

<i>Recommendations</i>
1. FWF should offer training to affiliated companies on how to deal with complaints received.
2. FWF should be more open to offering advice and support to affiliates on how to solve code related issues in the supply chain. In doing so FWF should have an open attitude towards the affiliated company.
3. The factory audit teams should consist of at least one more experienced person. In this way the teams will have the necessary experience at the same time as new audit team members can learn from that person.

13.4 Improvement of labour conditions	
	Source: Three factory audits in 2008 done with FWF audit teams on behalf of the affiliate
Workers interviews	Between six and 20 workers were interviewed off site prior to the audits.
Documentation	At one factory dormitories had not been part of fire inspection report, at one other factory some registers were missing, such as accident register.
Buyer-supplier relationship (duration)	Varying
Sourcing practices (price, lead-time, quality requirements)	Factories expressed that they are satisfied with lead time and pricing.
Monitoring system of FWF member company	Not part of this audit
Management system factory to improve labour standards	Not part of this audit
Communication, consultation and grievance procedure	In none of the factories was the code displayed to the workers, or passed on to subcontractors. At one of the factories the workers had been coached to give correct answers to auditors. One factory also miss
Employment is freely chosen	At one factory workers were not free to leave the compound as they choose at night.
No discrimination in employment	No non-compliances found.
No exploitation of child labour	One factory had falsified records making it hard to verify ages. Another factory had for juvenile workers who were not properly registered.
Freedom of Association and the Right to Collective Bargaining	At one factory there is a union, but it does not function effectively.
Payment of a Living Wage	Time records to bad to verify correct wages at one factory. At another there is incorrect payments of over time. Another there is no system to make sure that that piece rate workers do not receive less than minimum wage.
No excessive working hours	Time records falsified in all three factories making it hard to verify working hours. Factories also need to introduce a system to make sure that over time is voluntary.
Occupational health and safety	Majority of factories have comments on ergonomics and two of the factories have comments on fire safety.
Legally binding employment relationship	two of the factory had remarks on the payments of obligatory insurances.
Special remarks	None

13.4 Improvement of labour conditions	
	Source: One factory audit in 2008 done with FWF audit teams on behalf of the affiliate
Workers interviews	20 workers were interviewed, 5 of these interviews were done before the audit off site.
Documentation	Personal files incomplete
Buyer-supplier relationship (duration)	Management stated that their relationship with Filippa K has been long and good.
Sourcing practices (price, lead-time, quality requirements)	
Monitoring system of FWF member company	Not part of audit
Management system factory to improve labour standards	Not part of audit
Communication, consultation and grievance procedure	Code not displayed or known by workers. No grievance system for the workers in the factory.
Employment is freely chosen	No non-compliances found
No discrimination in employment	No non-compliances found
No exploitation of child labour	No non-compliances found
Freedom of Association and the Right to Collective Bargaining	Worker representatives are supervisors, they should be elected.
Payment of a Living Wage	Wage system not transparent to workers.
No excessive working hours	Over-time not correctly paid.
Occupational health and safety	Fire exits open inwards and one fire exit blocked. Some health and safety routines such as periodic evacuation drills for emergency situations missing.
Legally binding employment relationship	Points on wage increases in contract missing.
Special remarks	None

13.4 Improvement of labour conditions	
	Source: One factory audit in 2008 done with FWF audit teams on behalf of the affiliate
Workers interviews	27 worker interviews were conducted.
Documentation	Working permit and working licence missing.
Buyer-supplier relationship (duration)	Management described relationship with Filippa K as old and strong
Sourcing practices (price, lead-time, quality requirements)	Not part of this audit.
Monitoring system of FWF member company	Not part of this audit.
Management system factory to improve labour standards	Not part of this audit.
Communication, consultation and grievance procedure	There is no annual leave committee, there are no workers on the disciplinary committee and workers in the health and safety committee are not elected.
Employment is freely chosen	No non-compliance found
No discrimination in employment	No non-compliance found
No exploitation of child labour	No non-compliance found
Freedom of Association and the Right to Collective Bargaining	Not all factories have workers' representatives or trade union representation
Payment of a Living Wage	Pay slips available and company nurse earning less than legal minimum wage
No excessive working hours	Work hours incl. overtime exceeded legal limits during several periods.
Occupational health and safety	Some personal protective equipment missing as well as protective parts of some machines. Several health and safety routines such as health and safety trainings and periodical controls of the water filtering system.
Legally binding employment relationship	Social security services are not correctly informed about wages of workers. Over time is stated as obligatory in the contract.
Special remarks	None