



Fair Wear Foundation

Management system audit report

Mayerline N.V.

29 September 2011

FWF member since: 15 March 2010

Sources of information

Interview with Mr. Dominik van Houtte (Production & Logistics Director, Member of Director Board)

Interview with Mr. Sarunas Dauksys (General Operations Manager of UAB "MLI")

Interview with Ms. Pascaline Roels (Human Resources Management)

Annual report and work plan

Archived documents

Database FWF

Audit conducted by:

Juliette Li, International Verification Coordinator



Fair Wear Foundation

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Introduction

In September 2011 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Mayerline N.V. (hereafter Mayerline). The MSA is a tool for FWF to verify that Mayerline 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 the work plan for 2011. FWF tailored the MSA to the specifics of the management system of Mayerline in order to assess the key issues of interest. During the MSA, employees of Mayerline 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 and recommendations. 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 Mayerline 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 Mayerline that have been identified as key areas of interest for 2011. 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 will publish the conclusions, requirements and recommendations of all MSAs on www.fairwear.org. FWF encourages Mayerline to include information from the MSA report in its social report.



Executive summary

Mayerline meets most of FWF's management system requirements. Mayerline works with a limited number of suppliers. 90% of Mayerline's purchasing volume is produced by suppliers with whom Mayerline has an existing relationship of over five years. The main suppliers of Mayerline are located in China, Lithuania, Portugal, Germany, Italy and Belgium.

Mayerline has demonstrated strong efforts to monitor its suppliers. In 2010-2011 Mayerline has monitored 87.6% of its purchasing volume. This exceeds FWF's monitoring requirement, which is 40% in the first year of membership and 60% in the second year. Since Mayerline has audited a high percentage of its turnover in 2010-2011, FWF recommends the company to focus on follow up and to provide trainings for the audited suppliers in 2012.

Two factories in China were audited by FWF local audit teams in 2010 and 2011 respectively. One of the factories is a common supplier of three FWF members. Mayerline has visited the factory and a follow-up report was written. Although FWF has not verified if remediation has been realised, it concluded that Mayerline has sufficiently followed up the Corrective Action Plans (CAPs) of the factory audited in 2010. Main issues found in the two factories were regarding freedom of association, payment of living wage, overtime and occupational health and safety.

No complaint from workers at the suppliers was filed to FWF's local complaints handler. The Code of Labour Practices (CoLP) was not posted in one out of the two audited factories. However, a recent report from Mayerline showed that it was posted as a follow-up action.

Mayerline has sufficiently informed its own staff and the suppliers about FWF membership. The management of Mayerline meets with FWF regularly to discuss and evaluate the progress of the implementation of CoLP. Mayerline informs the public about its FWF membership through its website.

Positive findings

Conclusions

1. Mayerline invests in long term relationship with suppliers. The company chooses to work with limited steady suppliers and supports these suppliers to develop business together.
2. Mayerline has monitored 87.6% of its total purchasing volume by the time of the MSA. This exceeds FWFs monitoring requirement, which is to audit 40% of the turnover in the first year of membership and 60% in the second year.
3. Mayerline has a comprehensive human resource management system with a training plan for own employees. FWF membership is frequently discussed regularly during the trainings.

1. Sourcing

Conclusions

- 1.1 Mayerline's sourcing practices effectively support the implementation of CoLP. The company values long term business relationships.
- 1.2 Mayerline informs suppliers on its FWF membership and the CoLP through the online supplier database. All suppliers are required to access the information and commit to implement the CoLP. Mayerline has distributed the supplier questionnaire to inform around 90% of its current supplier factories to inform them about FWF membership.
- 1.3 90% of Mayerline's purchasing volume is produced by suppliers where the relationship is over five years. Less than 5% of their production volume is from suppliers where the relationship is shorter than one year.
- 1.4 39.3% of the total volume is from low risk countries such as Lithuania, Portugal, Germany, Italy and Belgium. 55.6% of the volume is produced by suppliers located in China. The remaining small amount is produced in other countries like Turkey and South Korea.
- 1.5 Mayerline does not look for new suppliers frequently. The company follows a routine when there is a need to recruit new suppliers. Meeting quality requirements and ensuring delivery time are the prerequisites. The production director visits the site and checks general working conditions before placing sample orders. When the production meets the requirements, Mayerline will start working with the factory and monitor working conditions.
- 1.6 Mayerline has a production department UAB "MLI" in Lithuania that is closely working with local suppliers. The production department visits suppliers in Lithuania frequently.
- 1.7 Mayerline forecasts production planning annually so that suppliers are able to make production plans accordingly. In some cases, the company purchases fabrics in advance. According to Mayerline, this practice shows commitment to the suppliers

and supports suppliers to meet delivery times. The company prefers to negotiate with current suppliers when encountering challenges. It does not end business relationships easily.

1.8 Overtime work is observed in the two factories audited in 2010 and 2011. In both of facilities, the factory manager claimed that Mayerline’s lead time does not create a pressure for production and thus does not lead to overtime.

1.9 Reports show that minimum wages are paid in both audited factories. Living wage is the next step for Mayerline.

1.10 Suppliers of Mayerline are required to meet local labour laws and regulations. Minimum wage and overtime compensation should be paid according to those requirements. Paying living wages is not yet required by Mayerline. Mayerline believes that rewarding long-term suppliers by giving stable orders and timely-made payments is sufficient to support the suppliers in paying living wages.

Requirements

1.9&1.10 Payment of living wages is an element of FWF’s CoLP. FWF expects member companies to be committed to paying living wages, and discuss with suppliers to gradually improve workers’ wages.

Recommendations

1.8, 1.9&1.10 Mayerline is recommended to discuss overtime and living wage issues with the two audited suppliers in China. FWF has developed the wage ladder tool to assist member companies in assessing and monitoring wage level. The wage ladder is included in both of the audit reports.

One of the factories is a common supplier of three FWF members. Members of FWF have a higher leverage in this factory. FWF suggests Mayerline to prioritise its monitoring work in 2012 and focus on this particular supplier. Mayerline is already in contact with the two other FWF members in order to establish cooperative communication with the factory. FWF encourages Mayerline to discuss with the other members on how to gradually increase wage and decrease overtime. A capacity building project could help the factory in increasing productivity and efficiency. Upon request, FWF could recommend local service providers to provide the training.

Detail recommendations are given in chapter 4 of this report.

2. Coherent system for monitoring and remediation

Conclusions

2.1 Since Mayerline became a FWF member in March 2010, the company is expected to monitor at least 40% of its total turnover by March 2011 and 60% by March 2012. Up to the date of the MSA, Mayerline has audited 48.3% of its total volume. In addition to monitoring 39.3% of the volume produced in low risk countries,

- Mayerline has monitored 87.6% of its total turnover, which exceeds the monitoring requirement of FWF.
- 2.2 The two factories in China were audited by local audit teams of FWF in April 2011 and September 2011.
- 2.3 All CAPs in the audit report in April 2011 were discussed and finalised through emails and phone calls within one month after the audit. The Production & Logistics Director of Mayerline followed up on the CAPs during his visits to that factory. Another audit was conducted in August 2011. The CAPs have been sent to the management awaiting response. The third audit is scheduled for October 2011 in China.
- 2.4 Mayerline has a local office in Lithuania. The staff visits the suppliers in Lithuania frequently. According to the Mayerline, all suppliers have posted the CoLP.

- Recommendations**
- 2.3 Since Mayerline has already audited a high percentage of its turnover, FWF recommends the company to focus on follow up actions and provide trainings for the audited suppliers in 2012.
- 2.4 In low risk countries, Mayerline is encouraged to take a step forward. It is of added value if Mayerline shares the supplier list with key stakeholders of FWF to enhance monitoring. Key stakeholders and the general labour conditions in Lithuania can be found in this report on FWFs website: http://fairwear.org/images/2011-05/stakeholder_consultation_lithuania_may2010.pdf.

3. Complaints procedure

- Conclusions**
- 3.1 There is a designated person within the company who handles the complaints of workers. A routine is available to handle complaints but has not been written on paper.
- 3.2 The production director visits the suppliers regularly and at least once a year. He verifies whether the CoLP is posted in the factories during his visits.
- 3.3 No complaint from workers at the suppliers was filed to FWFs local complaints handler. The CoLP was posted at one audited factory. At the other factory the CoLP was not posted during the audit, but a recent report from Mayerline showed that it was posted as a follow-up action on the CAPs.
- 3.4 Both audit reports showed that workers have limited knowledge of FWF and the commitment of Mayerline to implement the CoLP.

- Recommendations**
- 3.4 Mayerline is recommended to provide trainings to workers on FWF's complaints

procedure and the elements of the CoLP. The complaints procedure is a verification approach of FWF to ensure a channel to report problems for workers in case the internal grievance system is not fully functional in factories or when such a system is lacking. Since there is no independent trade union or workers committee in these two factories, FWF believes that it is essential to inform workers sufficiently about the complaints procedure.

4. Labour conditions and improvements

Conclusions

Based on results of audits carried out by FWF teams to verify improvements FWF has drawn up an overview of improvements in labour conditions in factories. The overview is annexed to this report. This overview includes results of audits by FWF local audit teams. Results of audits by other initiatives are not summarized.

- 3.1 Two factories in China were audited by FWF local audit teams in 2010 and 2011 respectively. One of the factories is a common supplier of three FWF members. Mayerline has visited the factory and a follow-up report was written. Although FWF has not verified if remediation has been realised, it concluded that Mayerline has sufficiently followed up the CAPs of the factory audited in 2010. There is a plan to visit the other factory in 2012. The summary of the findings are listed below (included information in the follow-up report):
- 3.1.1 No violations were found regarding **child labour, forced labour and discrimination**.
- 3.1.2 Issues regarding **freedom of association** and **collective bargaining**: a branch of the All-China Federation of Trade Unions has been established at one factory (factory A). Most workers were not aware of the existence of the union. The secretariat of the union was not elected by workers. According to the follow-up report, the factory has applied several means to inform workers about the union branch. The information regarding the union has been posted at the notice board of the factory. The factory also initiated an election for union representatives. Seven workers were elected as committee members.
- At the other factory (factory B) there was no union or workers committee. Workers at both factories were not aware of the rights to organise.
- 3.1.3 Issues regarding **payment of living wages**:
- Factory A did not distinguish wages for regular working hours and overtime premium. As a result it was not possible to assess whether the level of wages for regular working hours meets the local legal minimum wage. It was also found that the factory delays the payment of workers' salary when the payday falls on a holiday or Sunday. According to the follow up report, the factory has changed its policy and the salaries were paid on the last working day of the month.
- At factory B, workers were paid above the local minimum wage if they provided full attendance of all regular working hours (40 hours per week). The level of wages in the factory was between minimum wage and one of the living wage benchmarks – Asia Floor Wage.
- 3.1.4 Issues regarding **overtime work**:

It is estimated that the total amount of working hours is between 60-68 hours per week at factory A, where overtime was not accurately documented. Overtime was less than average factories in China in general. The follow-up report did not mention the discussion on overtime.

In factory B, working time per week is over 60 hours and up to 66 hours. One day off per week is not always guaranteed.

3.1.5 Occupational safety and health issues:

Three fire safety issues were found at factory A. According to the follow-up report by Mayerline, remediation has been realised.

At factory B, one issue regarding emergency exit and another issue regarding ergonomics of production workers were found.

3.1.6 Issues regarding legally binding employment relationship:

No non-compliance was found at factory A.

At factory B, only 10% of all workers are covered by pension and unemployment insurance. 20%–25% are covered by health insurance and accident insurance.

Recommendations

4.1.3 As part of legal minimum wage regulation, overtime premium should be paid to workers on top of the regular wage for a standard working week, which is 40 hours per week in the case of China. Any work outside of the 40 hours should be considered overtime and should be paid with a premium rate according to local law. It is important for factory A to accurately document overtime hours and calculate total wages according to the record. The next step is to discuss with the factory how to apply the payment of living wages. Mayerline could use the wage ladders in the audit reports to follow up.

4.1.4 Mayerline is recommended to discuss how they can reduce overtime with the suppliers. An overtime root causes analysis should be done together with the factories. If the analysis indicates that there is a need to improve efficiency, Mayerline could support the factory with the help of an external consultant. FWF works with local experts on various issues in garment production factories. Upon request, FWF could provide support to Mayerline. If the analysis shows that customers of the factory should give more space for production planning, Mayerline could work with the other two FWF members to support the common supplier.

5. Training and capacity building

Conclusions

5.1 Staff of the member company are sufficiently informed about FWF membership and the implementation of the CoLP. The information was provided via newsletters, internal trainings and meetings. The Production & Logistics Director gave presentations to the staff about FWF membership.



- 5.2 Suppliers were systematically informed about FWF membership and the implementation of the CoLP via the internet based website for suppliers.
- All questionnaires regarding working conditions and social compliance have been filled in and returned by the suppliers.
 - According to Mayerline, all suppliers have now posted the CoLP.
 - One out of the two factories audited last year posted the CoLP. This was posted at a place that is easily accessible for workers. The CoLP was included the contact details of the local complaints handler.
- 5.3 In general, workers at the suppliers are not aware of their labour rights and the CoLP.

Recommendations

5.3 Mayerline is recommended to provide trainings to workers at the suppliers (See more in chapter 4). A capacity building programme could be provided to the management of the suppliers. It was discovered during the MSA that Mayerline has a comprehensive human resource management system for its own employees in Brussels and Lithuania. Mayerline could share this experience with the management of the suppliers, in order to improve management system quality of the suppliers.

6. Information management

Conclusions

6.1 Mayerline does not change suppliers often. The procedure to keep the supplier register updated is clear but not written on paper. The contact person of FWF updates the supplier register and submitted it to FWF. The register submitted in 2011 is accurate.

6.2 Buyers and other relevant staff have access to information on social compliance of suppliers. The Production & Logistics Director collects information on CAPs during his visits to the suppliers. The information is stored in the company database.

Recommendations

6.1 Mayerline could draft a procedure on paper which criteria to use when selecting a new factory and how to make sure the factory is included in the factory register.



7. Transparency

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| Conclusions |
| 7.1 Mayerline informs the public about its FWF membership through its website. Information regarding FWF membership is posted on the website of Mayerline in correct wording. |
| 7.2 The annual social report of 2010 has been received in time and is published on the corporate website. |

8. Management system evaluation and improvement

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| Conclusions |
| 8.1 The management of Mayerline evaluates the work of implementing CoLP at least once a year. The management meets with FWF regularly to discuss and make improvement on following up CAPs. |
| 8.2 Mayerline collects feedback informally from manufacturers. |

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| Recommendations |
| 8.2 It is recommended that Mayerline could critically review the effectiveness of the activities conducted in 2011 and gathers input from manufacturers. This will help the company revise its strategy for improving working conditions where necessary and define its next steps. |

9. Basic requirements of FWF membership

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| Conclusions |
| 9.1 Mayerline handed in a work plan for 2011 that is approved by FWF. |
| 9.2 Mayerline paid its membership fee for 2010-2011. |

10. Recommendations to FWF

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| Recommendations |
| N/A |