



Fair Wear Foundation

**Brand performance check  
McGregor Fashion Group  
September 2012**

***FWF member since:***

***April 2007***

***Sources of information***

Interview with Kees Schimmel (Group director HR, Logistics, Legal)

Interview with Kees Middelkoop (Product director Gaastra/coordinator FWF Gaastra)

Interview with Bastiaan van Lon (Product director McGregor/coordinator FWF McGregor)

Interview with Esther Oostdijk (Division coordinator ETP/coordinator FWF ETP)

Interview with Lieske Oostveen (Sr product manager knitwear)

Interview with Martijn Been (Brand marketing)

Interview with Bram Witsenburg (Legal advisor/FWF Contactperson)

Annual report and work plan

Archived documents

Database FWF

Performance check carried out by:

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Fair Wear Foundation

Index

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



## Introduction

In September 2012 Fair Wear Foundation (FWF) conducted a brand performance check at McGregor Fashion Group (MFG). The performance check is a tool for FWF to verify that MFG implements the management system requirements for effective implementation of the Code of Labour Practices, as specified in the FWF Charter.

Starting point for the performance check have been the work plans for 2011/12. FWF tailored the performance check to the specifics of the management system of MFG in order to assess the key issues of interest. During the performance check, employees of MFG were interviewed and internal documents have been reviewed.

FWF developed this report on the basis of findings collected during the performance check. 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 MFG 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 MFG that have been identified as key areas of interest for the past year. As FWF approaches the implementation of the Code of Labour Practices as a step-by-step process, it is well possible that performance check reports of subsequent years will focus on different aspects of the management system.

FWF will publish the conclusions, requirements and recommendations of all performance checks on [www.fairwear.org](http://www.fairwear.org). FWF encourages MFG to include information from the performance check report in its social report.



## Executive summary

McGregor Fashion Group (MFG) is a member of FWF since 2007. MFG is in process of implementing FWF's management system requirements. When sourcing, staff considers social compliance. The product managers have received a guideline to first check if there were prior audits conducted, promote completion of questionnaire and in the event of a constructive relationship plan for an a FWF audit. An effort has been made the past year the reduce the number of suppliers. The company sources in several countries and had 187 suppliers in their supplier register. In several cases these suppliers had other production units. Not all production units were included in the register.

MFG has given priority in the year 2011 to providing follow up on earlier audits, instead of doing new audits. In 2011 and the first half of 2012 9 audits have been carried out with FWF teams. In total 40% of the production volume has been audited with FWF teams. Furthermore MFG sources 8 % in low risk countries, and has given follow up on 16% other third party audits. This brings the total % that is actively included in the monitoring system at 64. This is below the required 90% by FWF.

Product managers have the responsibility to monitor the suppliers and follow up on CAPs. To keep the product managers updated on developments related to the FWF membership, twice a year meetings are organised to specifically discuss implementation of the Code of Labour Practices. Suppliers are visited and pending issues of CAPs are discussed. Product managers are the designated persons in the company to document the actual status of the issues to be improved mentioned in the corrective action plan in the extra columns in the excel sheet.

Two verification audits were done by FWF at suppliers in China in the past year. Some improvements were seen, but also repeated issues. The audits showed no non-compliances found on discrimination, child labour and forced labour. It was found that workers were not well aware of their rights and the FWF local complaints handler. Improvements were needed on freedom of association, wages and reducing overtime.

## 1. Sourcing

### *Conclusions*

1. The supplier registered MFG handed in included 187 suppliers and sources in China, India, Indonesia, Bangladesh, Macedonia, Thailand, Vietnam and Turkey and in low risk countries Poland, Italy, Bulgaria, Spain, Netherlands and Portugal
2. In the sourcing practices of MFG social compliance is taken into consideration to a certain level. When selecting a new supplier purchasing staff checks for example the customer profile and earlier audit reports.
3. New suppliers are asked to sign (or commit to signing) the CoLP before first order is placed by requiring to send back the FWF questionnaire. This is documented in the software application for the suppliers. They also receive the company manual, where information on FWF is included.
4. MFG has put an effort in the past year in reducing the number of suppliers and also in sharing suppliers between the different groups (ETP, Gaastra and McGregor). The latter is not always possible when there are high peaks in production expected. Another factor which has contributed to reduce the number of suppliers is to reduce the number of



styles.

3. According to the company with approximately 50% of the suppliers there is a business relation of more than 5 years. Currently the MFG is orientating on possibilities to go to new producing countries, which will mean in future to phase out some relations with existing suppliers. 8% of the production volume is sourced in low risk countries

5. For some suppliers MFG has collected and evaluated previous audit reports from the factory.

6. The affiliate is aware that late approval of samples or delivery of material has a possible negative impact on the occurrence of excessive overtime. It is however not discussed or assessed with suppliers if a change in the current practice is needed. Excessive overtime was found during audits, as also payments below the levels of what local stakeholders estimate as living wage.

7. With the majority of their suppliers the product managers of MFG negotiate the price with a system of open book costing. Prices are negotiated per order. In some cases a FOB price indication is given at the beginning of the year.

### ***Recommendations***

1. Prepare a clear guidance for weighing of social compliance when selecting new factories, as for example sharing earlier audit reports and requiring having committed to realising improvements on the implementation of the FWF Code and having returned the questionnaire before production starts.

3. MFG is advised to make further steps in reducing the number of suppliers as that makes the relations with existing suppliers more sustainable and facilitates the monitoring.

6. As the prevalence of excessive overtime is a complex but structural problem in the garments sector, also found at suppliers of MFG, it is advised to do a more in depth root cause analysis with a key supplier, to get more insight in possible steps that can be taken by the factory and MFG. The same is valid for the issue of making steps towards increasing the wages of workers towards a level of living wages. FWF recommends starting with a small number of suppliers where MFG has a big share of the production volume of these suppliers.

## **2. Coherent system for monitoring and remediation**

### ***Conclusions***

1. MFG has given priority in the year 2011 to providing follow up on earlier audits, instead of doing new audits. In 2011 and the first half of 2012 9 audits have been carried out with FWF teams. In total 40% of the production volume has been audited with FWF teams. Furthermore MFG sources 8 % in low risk countries, and has given follow up on 16% other third party audits. This brings the total % that is actively included in the monitoring system at 64 This is below the required 90% by FWF.

2. The corrective action plans resulting from conducted audits are shared with the factory by the product manager. Sometimes the CAP is shared with the MFG office in Hong Kong, who in turn shares it with the supplier. In some cases the CAP is discussed



with people at the headquarters of the supplier and not directly with the production units. There is a variety in approaches in when and how this is done. Sometimes it is done face to face, sometimes in conference calls. Sometimes it is considered difficult to do this during visits, like the visits have different purposes. When visits are made during the product development stage there are no obstacles found to do that in general. However discussing follow up on caps, especially on difficult issues like wages, is considered difficult during the visits to the factories when orders are placed and prices are negotiated.

3. Monitoring of suppliers is taken into consideration during individual performance checks of the product managers. The calculation of their bonus is partially based on it.

4. The suppliers are visited several times a year by staff of MFG. Reporting back on social compliance issues is happening until now on an ad hoc basis. MFG is considering making better use of these opportunities by requiring for example also staff of its Hong Kong office visiting suppliers to check if the Code is posted. A new report template has been developed for this purpose.

5. MFG is open to share audit reports (also existing audit reports, including those of BSCI) and to follow up on findings together with other FWF affiliates (also other customers?). Until now, MFG has conducted one shared audit with another FWF affiliate, and will give a shared follow up on this audit.

### **Requirements**

1. MFG has to increase the production volume that is included in the monitoring system. 90% of the production commissioned by the FWF affiliate must have originated in factories which have been audited or from factories in "low risk countries". For the remaining 10% of the production commissioned by the FWF affiliate the following applies: Suppliers of own production who supply 2% or more of the affiliate's total turnover stated in the factory register, must also be audited. The remaining suppliers of own production are exempted from auditing, but must still endorse the Code of Labour Practices and display the information sheet for workers in the work place. Furthermore the FWF complaints procedure must be made operational in those factories

### **Recommendations**

2. Provide product managers with clear instructions of the time lag in which a CAP has to be agreed upon with the management of the production unit, and how progress on issues in a CAP must be documented. A solution for this is offered in the extra columns in the CAP where the state of the affairs of the pending issues can be registered. It is also recommended to think of a system to create an overview of the status of all the suppliers.

2. MFG should consider to aggregate the findings in the CAPs related to the own purchasing practices to discuss whether changes can be supportive of better implementation of the FWF Code of Labour Practices. Root causes of overtime and low wage level should be investigated if these labor standards are violated and MFG should assess the impact of their purchasing practices on the occurrence of these issues.

### 3. Complaints procedure

<b>Conclusions</b>
<p>1. MFG has designated persons to handle complaints of workers, these are the FWF coordinators of the concerning division together with the relevant Product Managers because the latter hold a closer relationship with the suppliers. Product managers themselves are responsible for the follow up on complaints. FWF audits have shown that the FWF Code of Labour Practices with the local complaints handler's phone numbers is not always posted. At two factories audits revealed that the local complaints handlers' phone number was changed. There is no structured way or procedure in place with which MFG ensures and documents that these information sheets are posted.</p> <p>3. In the past year no new complaints have been received related with MFG.</p>

<b>Requirements</b>
<p>2. MFG is responsible for sending the right Information sheet for workers with the correct data of the local complaints handler on it and think of a procedure to regularly check this, a way to ensure that the CoLP is posted could be that suppliers are asked to send a picture of the code posted with a description where it was posted at the production sites and staff visiting the sites can be asked to do the same.</p>

### 4. Labour conditions and improvements

<b>Conclusions</b>
<p>Based on results of verification audits carried out by FWF teams an overview of labour conditions in factories has been drawn up. The overview is annexed to this report. Results of audits by other initiatives are not summarized.</p> <p>1. An audit was done in December 2011 and one in May 2012 both at factories in China. The first audit was in a factory which had been previously audited in 2010. The audits indicated that there were no non-compliances found on discrimination, child labour and forced labour. It was found that workers were not aware of their rights and the FWF local complaints handler. The audit in May 2012 showed that the local complaints handlers telephone number was not correct. The union active in both factories was not elected democratically and workers were not aware of the union activities. This was a repeated issue of the earlier audit report findings. Wages were found to be below the level of local stakeholders estimates of a living wage at both production units, and excessive overtime was found, though the documentation on working hours had improved in the re-audited factory. Not all workers had a copy of their contracts themselves in that same factory.</p>

<b>Recommendations</b>
<p>1. MFG could consider letting these suppliers join the FWF Workplace Education Programme to improve awareness of workers on their rights and duties as this was a repeated issue for the first factory and also an issue in the other audited factory.</p>



Improving dialogue at the factory level is a step to discuss non-compliances and possible solutions within the factory and to improve worker representation.

1. As the more difficult issues as wages and freedom of association did not show improvements since the earlier audit done at one of these factories, MFG could consider providing extra support by engaging in a more thorough dialogue, organising seminars for suppliers in order to share experiences and good practices or facilitating with local service providers. If needed FWF can provide more advice.

## 5. Training and capacity building

### *Conclusions*

1. Staff of the member company is sufficiently informed about FWF membership and the implementation of the Code of Labour Practices. Next to the manual for company staff, information is provided to the product managers twice a year in the group meeting. Communication and sales staff have been less involved with the FWF membership until now.

2. FWF staff provided training to the product management staff in 2011, and provided a workshop during the latest meeting of product managers in 2012 as well.

3. Staff from different departments participated in the FWF annual conference in 2012.

4. Suppliers are informed about the FWF membership with the company manual and by receiving the FWF questionnaire. Agents are expected to share this information with the production units. Furthermore suppliers have contact with MFG product managers on FWF related issues during visits or regular communication.

5. MFG has selected 5 suppliers that will participate in the FWF Workplace Education Programme in India, where they will receive a basic training on workplace standards, grievance mechanisms and gender based violence.

### *Recommendations*

3. As workers awareness on their rights and duties is key in the improvement of working conditions MFG more efforts to inform and train workers are needed. In 2012 suppliers of MFG in India will participate in the Work Place Education Programme. MFG could consider engaging also key suppliers in China and Turkey in the WEP programme in the coming year.

## 6. Information management

### *Conclusions*

1. The product managers within the three groups (McGregor, Gaastra and ETP) use a specific software programme (Movex) to register data on the suppliers. In this system however the production units are not always included (in the cases that the supplier is





an intermediate/agent/or headquarters only). The supplier register submitted to FWF is therefore not complete on that aspect. The supplier register does specify if questionnaires have been collected, if the Code of Labor has been signed of, when audits took place, who is responsible for the contacts with what supplier and the FOB value. Compared with the template FWF has provided there is information missing on production capacity, the first year of production for MFG, the number of workers and the product category.

2. The product managers, mentioned in the supplier register, are responsible for keeping the information regarding suppliers updated.

3. The product managers maintain the files on the server with the corrective action plans. In most cases the extra columns in the excel sheet of the CAPs are used for that purpose. Per factory this gives a good state of affairs. There is however no system in place to have an overview of the general situation regarding social compliance at the whole supply base.

### ***Requirements***

1. MFG has to ensure to submit a complete supplier register, with all production units, to FWF with all the necessary data per supplier. At least the correct names, addresses, and contact data of all production locations should be filled in at the beginning of the year. Having insight in the production units is considered a key element for monitoring social compliance. At the closing of the financial year, an overview has to be provided including the production volume purchased.

### ***Recommendations***

3. As the supplier's overview is related to the software application used within MFG and therefore has limitations on mentioning different production location, it might be an alternative for the coming year to submit a separate list to FWF indicating which production units are used per supplier.

## **7. Transparency**

### ***Conclusions***

1. The member company informs the public about its FWF membership through its corporate website of the McGregor Fashion Group. The company is working on having the right information placed also on the Brand websites of Gaastra and McGregor.

2. The annual social report of the previous year has been received and is posted on the corporate website. The report gives a brief overview of procedures and activities in the last year. No detailed information was provided on follow up on audits and/or concrete information on the social compliance level at the monitored suppliers.



**Requirements**

1. The annual social report should be accessible on the corporate websites.
2. Affiliates of FWF should provide information in their annual report information on the status of social compliance at their suppliers.

## 8. Management system evaluation and improvement

**Conclusions**

1. Within MFG there is a two weekly meeting between the Group Director (management) and the contact person for FWF. Next to that there are 4 meetings per year with the coordinators for FWF related issues in the three different divisions. They discuss progress towards implementation of the FWF Code of Labour Practices and the management system requirements. Twice a year a meeting is organised for all the product managers. During the preparation of those meetings, the coordinators and the group director check the state of affairs of the monitoring threshold and share this with the group.
2. MFG does not gather systematically the feedback of the manufacturers for the evaluation of its FWF membership.

**Recommendations**

2. It is advised to use also input from the production units when evaluating the monitoring system.

## 9. Basic requirements of FWF membership

**Conclusions**

1. MFG meets the basic requirements of FWF membership. A work plan has been handed in and the membership fees are paid.

## 10. Recommendations to FWF

**Recommendations**

Activities to make consumers more aware of FWF are appreciated



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<b>Improvement of labour conditions: summary of most important findings</b>	<b>Factory in China audited in August 2010</b>	<b>Same factory in China audited in December 2011</b>
Sourcing practices of [FWF affiliate]	Wages are below stakeholders estimate of living wage	Wages are below local stakeholders estimate of living wage
Monitoring system of [FWF affiliate]	FWF code is not provided	no findings
Management system of factory to improve labour standards	-	no findings
Communication and consultation	The FWF Code is not posted	Workers are not informed/aware of FWF Code and PWC
Employment is freely chosen	Some months there is a delay in payments	no findings
No discrimination in employment	no findings	no findings
No exploitation of child labour	no findings	no findings
Freedom of association and the right to collective bargaining	Union representatives are not elected, workers are not aware of the union activities	Union representatives are not elected democratically and does not function properly
Payment of a living wage	Wages are below stakeholders estimate of living wage	Wages are below local stakeholders estimate of living wage and overtime premium is not correctly paid
Reasonable hours of work	Time records are not adequate	Excessive overtime is found
Safe and healthy working environment	Improvement is needed to provide access to the emergency exits	Some issues were found that need improvement.
Legally binding employment relationship	no findings	Not all workers have a copy of their contract

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Factory in China audited in May 2012</b>
Sourcing practices of [FWF affiliate]	Wages are found to be below the level of what stakeholders estimate as living wage. Delays in delivering accessories influences lead time
Monitoring system of [FWF affiliate]	no findings
Management system of factory to improve labour standards	no findings
Communication and consultation	The contact details of the FWF local complaints handler were not correct.
Employment is freely chosen	No policy in place
No discrimination in employment	No policy in place
No exploitation of child labour	No policy in place
Freedom of association and the right to collective bargaining	Workers are not aware of their rights, the union is not democratically elected
Payment of a living wage	Wages are found to be below the level of what stakeholders estimate as living wage.
Reasonable hours of work	Excessive overtime was found
Safe and healthy working environment	Some improvements needed on exit signs
Legally binding employment relationship	no findings