



Fair Wear Foundation

Brand performance check report

ODLO Sports Holding AG

October 2012

FWF member since:

18 September 2008

Sources of information

Interview with Thomas Spiess (Director Supply chain management)

Interview with Urs Wittausch (Head of sourcing/Production/Logistics)

Interview with Jason Peyer (Sourcing & Logistics manager, responsible for CSR)

Interview with Regina Goller (Fabric sourcing department)

Annual report and work plan

Archived documents

Database FWF

Performance check carried out by:

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Fair Wear Foundation

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Introduction

In October 2012 Fair Wear Foundation (FWF) conducted a brand performance check at ODLO Sports Holding AG (hereafter ODLO). The performance check is a tool for FWF to verify that ODLO implement 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 has been the work plan for 2012. FWF tailored the performance check to the specifics of the management system of the three brands in order to assess the key issues of interest. During the performance check, employees of 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 or performance 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 ODLO 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 ODLO that have been identified as key areas of interest for 2012. 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. FWF encourages ODLO to include information from the performance check report in its social report.



Executive summary

ODLO has met most of FWF's management system requirements in 2012. The brand has monitored over 90% of its total annual purchasing volume. This is in line with FWF's monitoring requirement for being a member for 4 years.

ODLO prefers to establish long term relationship with the suppliers. Close to 100% of its purchasing volume in 2012 was from suppliers which have worked with ODLO for over 5 years. In order to minimize the risk of overtime at the suppliers, ODLO has made efforts to be more transparent in production planning and implement standard lead time. ODLO participates in FWF's project with various outdoor companies to assess the impact of hypothetical increases towards living wage benchmarks. Through this engagement, the company shows that it is committed to working towards implementation of living wages.

There is a system in place to follow up corrective action plans. The CSR responsible staff contacted the suppliers directly to discuss the follow-up actions for each audit. ODLO also collected audit reports from other initiatives to assess working conditions.

No complaint from workers of ODLO suppliers has been filed to FWF's local complaints handlers in 2012.

FWF conducted two follow-up verification audits at two suppliers of ODLO in 2012. Results showed that both suppliers had made significant improvements on being transparent to FWF's audit process, regularising labour contracts and payment of wages.

Staffs of ODLO were sufficiently informed about FWF membership. Important suppliers were also systematically informed and updated about FWF's work and local activities. Workers at the suppliers were not aware of FWF and its labour standards. ODLO is encouraged to participate in FWF's Workplace Education Programme to provide training workshops to management and workers of the suppliers.

ODLO evaluates its management system to implement FWF's Code of Labour Practices annually. It also actively informed the public about its FWF membership.

Positive findings

Conclusions
<p>1. ODLO has a comprehensive system to ensure its implementation of the Code of Labour Practices. All production staffs are actively involved in the process of carrying out the corrective action plans to improve labour conditions. Despite some staff changes, ODLO was able to maintain good performance in 2012.</p> <p>2. ODLO uses internet based software to provide updated information on products quantity demands at the shops. One of the purposes of using the system is to offer suppliers more flexibility in terms of delivery time, which might help to decrease overtime at the factories.</p> <p>3. ODLO promotes FWF membership among its suppliers during the last three years. As a result one of its suppliers has become a FWF factory member.</p>

1. Sourcing

Conclusions
<p>1.1 ODLO values long term business relationship. It prefers to support and develop suppliers to grow together. The biggest supplier of ODLO is owned by the company and located in Portugal, which is identified as a low risk country according to FWF. The</p>



second biggest supplier is a factory member of FWF. These two suppliers in total accounted for 58% of ODLO's total purchasing volume in 2012.

Data of 2012 showed that nearly 100% of ODLO's products were produced at suppliers which have worked with the brand for over 5 years.

1.2 ODLO does not frequently look for new suppliers. When there is a need to develop new product design, ODLO first approaches the existing suppliers. If working with new supplier is inevitable, ODLO chooses a factory that is recommended by organisations such as GOTS. Before making an order, the production manager visits the production site and discuss with the factory on FWF and its CoLP.

1.3 ODLO has a system to integrate social compliance in sourcing decisions. During an audit in Thailand, a supplier informed FWF that social compliance was an important issue for ODLO. Management staff of ODLO discussed regularly with the supplier on the corrective action plans from the previous audit, especially on overtime and workers benefits.

1.4 Overtime was found at one of the suppliers in Thailand. The audit result showed that ODLO's sourcing practice did not contribute to the excessive overtime. ODLO demonstrated strong efforts in supporting suppliers in reducing overtime. The company focused on two strategies to support the suppliers.

- ODLO recognized that fabric delay could cause overtime at their CMT suppliers. The fabric sourcing department kept the suppliers updated regarding the fabrics. Standard lead time ranged from 105 to 135 days. Standard lead time was applied after the fabrics arrived.
- ODLO used an Internet based tool to be transparent on its production planning. ODLO shared periodical demands in its shops with its suppliers. Suppliers could plan their own production based on the needs of the shops. This system enables suppliers distribute production evenly as much as possible during a longer period of time. Thus might contribute to reducing overtime.

1.5 ODLO participates in FWF's project with various outdoor companies to assess the impact of hypothetical increases towards living wage benchmarks. Through this engagement, the company shows that it is committed to working towards implementation of living wages.

In the last two years ODLO discussed with at least three factories on how to support them in increasing wages of workers. The main challenge of ODLO was to get an insight into labour cost input per working minute. Audits revealed that at the suppliers workers were not always paid on a level that FWF local stakeholders estimate as a living wage.

Recommendations

1.4 ODLO is recommended to work with more buyers with common suppliers to decrease OT. A result of an audit in Thailand showed that although ODLO's orders do not cause overtime at this supplier, the factory would appreciate it if ODLO could support the supplier and discuss with its other major buyers and work together to plan production.

2. Coherent system for monitoring and remediation

Conclusions

2.1 The percentage of ODLO's turnover that has been audited corresponds to the required percentage based on the duration of FWF membership. About 60% of ODLO's



turnover was produced in low risk countries in the European Union. Another 33% of ODLO's turnover has been audited in the past three years. Thus ODLO is considered to have monitored 93% of its total turnover, which meets FWF's threshold of 90% for the 4th year of membership.

Most ODLO factory audits were conducted by FWF local audit team. The factory in Israel – producing 9% of the turnover - was audited by an auditing company initiated by another buyer. ODLO acquired the audit report and assess the quality of the report together with FWF verification staff. The corrective action plan from that audit has been discussed with the factory management.

2.2 ODLO has a system to follow up on the corrective action plans resulted from the audits. The CSR responsible staff and the management of sourcing department were in touch with factory management to discuss the issues regularly. 100% of the corrective action plans have been discussed with the suppliers.

2.3 ODLO cooperates with two other members of FWF to follow up a corrective action plan regarding their common supplier in China.

3. Complaints procedure

Conclusions

3.1 The CSR responsible person of ODLO is the designated person to handle complaints filed by workers of their suppliers.

3.2 In 2012, no complaint from workers of ODLO's suppliers has been filed to FWF's local complaints handlers.

3.3 In general ODLO makes good effort to ensure suppliers to post the Code of Labour Practices at the factories so that workers have access to the information of FWF and its complaints handler. In low risk countries, ODLO has not yet built up a system to ensure that this practice is done properly.

3.4 FWF conducted two verification audits in 2012 at suppliers of ODLO. It was found that the Code of Labour Practices (CoLP) was posted at both suppliers. At the supplier in Thailand, the CoLP did not include the telephone number of the complaints handler. The workers in this factory were also not aware of FWF and its CoLP.

Recommendations

3.3 & 3.4 It is recommended that ODLO asks its suppliers in low risk countries to send photos of the CoLP being posted. Staff of OLDO could then regularly check if the documents are posted as reported by suppliers.

4. Labour conditions and improvements

Conclusions

FWF believes that transparency regarding working conditions in factories is of added value in working towards compliance with labour standards. 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. The overview includes results of audits by FWF local audit teams. Results of audits by

other initiatives are not summarised.

4.1 The Corrective Action Plan was also executed and lead to verifiable improvements at the supplier in China. The factory is a member of FWF. It was audited in 2011 and 2012. The main achievements were:

- The factory has been more transparent on the OT records and has decreased OT. Workers were given at least one day off per week in 2012, though working consecutively for more than 7 days happened occasionally in 2011.
- The factory has informed workers about the existence of the factory labour union.

Main areas that need improvement:

- Excessive overtime was still an issue at this factory.
- Although some improvement has been made, not all workers were covered in the social insurance scheme.

4.2 The Corrective Action Plan was executed and lead to verifiable improvements at the supplier in Thailand. The factory was audited twice in 2009 and 2012. The main improvements the factory has made were:

- The factory has changed the piece rate system applied in 2009 into an incentive target system. As a result workers were guaranteed the minimum wage and OT premium. The factory also gave workers an incentive target bonus on biweekly basis.
- The factory has signed contracts with all workers including Burmese migrants. The factory obtained legal work permit for all Burmese employees, which could be considered as good practice in context of Thailand.
- The factory stopped deducting costs from workers' salaries for uniform, annual health check and work permit. All the above items have been considered as company responsibilities according to the audit report in 2012.

Main areas that still need improvement:

- Many workers in this factory were Burmese migrants, while most documentation including the labour contracts were in Thai language.
- Excessive OT was still an issue. In occasional cases, workers did not have one day off every week.

4.3 During an audit in 2010, a supplier in India was found to be paying workers less than local minimum wages. ODLO officially issued a letter suggesting a higher rate from ODLO to the factory in case the brand's rate resulting in the low payment of workers. The supplier responded that the payment was fair. ODLO thus applied another strategy. The brand hired a CSR consultant recommended by FWF to help the supplier build up an incentive system to ensure at least minimum wage. ODLO continued to support the supplier when the supplier experienced a large scale company reform in 2011. During a monitoring visit in 2012, the consultant informed ODLO that the factory has started to pay minimum wages to workers. This result is not yet verified by FWF. FWF local audit team will audit this factory in 2013.

5. Training and capacity building

Conclusions

5.1 Staffs of ODLO were sufficiently informed about FWF membership and the implementation of the Code of Labour Practices.

- Information on FWF is provided through internal meetings and newsletters.



- New staff is informed by their colleagues and through company meetings.
- 5.2 Manufacturers were systematically informed about FWF membership and the implementation of the Code of Labour Practices. Questionnaires regarding FWF's labour standards have been returned.
- 5.3 Not all workers were informed about their labour rights at the two suppliers where FWF has conducted audits in 2012.

Recommendations

5.3 FWF offers training to workers on their labour rights, internal grievance mechanism and the FWF complaints handling procedure. The Workplace Education Programme is currently available to suppliers of FWF affiliates free of charge. ODLO could use this opportunity to inform workers regarding FWF and its labour standards.

6. Information management

Conclusions

- 6.1 ODLO keeps its supplier register updated. The information submitted to FWF in 2012 was accurate. The CSR responsible person updates the supplier register if there is a new supplier. In the supplier register, ODLO did not include the percentages of its order to the total production volume for the suppliers. As a result FWF could not conclude at which suppliers ODLO has significant leverage.
- 6.2 There is a system in place to effectively integrate information regarding sourcing and the implementation of the Code of Labour practices.
- CSR responsible person is part of the production team. Production managers and other relevant staff have access to info on social compliance of suppliers.
 - Information from the sourcing department was used to update/discuss status of social compliance/CAPs.
 - Documents are in place with information on status of CAPs

Requirements

6.1 ODLO is expected to collect information on the percentages of its order to the total production capacity of the suppliers. This would provide a basis for the brand and FWF to understand the leverage of ODLO at each supplier, which in turn will help developing a strategy to work with the suppliers.

7. Transparency

Conclusions

7.1 ODLO informs the public about its FWF membership through its website, brochures and catalogues. Logo of FWF is also shown prominently at the head quarter office, Odlo stores and at trade fairs.



7.2 The annual social report of the previous year has been received in time and placed on the website of the member company.

7.3 Information about FWF membership is posted on the website of ODLO in correct wording. The information on FWF includes a link to FWF website, description of FWF and published annual social reports since 2009.

8. Management system evaluation and improvement

Conclusions

8.1 ODLO annually evaluates in a systematic manner to what extent goals related to its FWF membership are achieved. Evaluation meetings took place when preparing the annual CSR report. Director of supply chain management participates in the meetings. Feedback from all production staff is collected and discussed.

8.2 ODLO uses feedback from FWF audited suppliers to evaluate the implementation of the Code of Labour practices.

9. Basic requirements of FWF membership

Conclusions

9.1 Work plan for the current year has been received in time and approved by FWF.

9.2 Membership fee for the previous year has been paid.



Annex

Improvement of labour conditions: summary of most important findings	A supplier (in China) audited in March 2011	A supplier (in China) audited in April 2012 to verify improvements
Management system of factory to improve labour standards	Factory has not posted FWF Code of Labour Practices in the factory.	FWF Code of Labour Practices has been posted in several places for view by workers.
Communication and consultation	Some workers are not aware of the existence of the union.	Workers confirm they are aware of the existence of the union. Factory has conducted a wide ranging worker satisfaction survey. Results will be used as input for further steps to realize improvements.
Employment is freely chosen	No areas for improvement found.	No areas for improvement found.
No discrimination in employment	No areas for improvement found.	No areas for improvement found.
No exploitation of child labour	No areas for improvement found.	No areas for improvement found.
Freedom of association and the right to collective bargaining	Union representatives are not selected through an open election.	Chairman and committees of the trade union still not elected by workers.
Payment of a living wage	Wages and benefits in compliance with local minimum standards. Wages for a regular working week for most workers are below the living wage benchmarks that FWF collected from local stakeholders.	All wages and benefits in compliance with local minimum standards. Wages for a regular working week of some workers (mostly in the cutting and inspection department) are below the living wage benchmarks that FWF collected from local stakeholders.
Reasonable hours of work	Working hours are not fully recorded; some workers punch their card earlier than work time and later than the time they stop working. Some workers have worked more than 3 overtime hours in some work days and / or 7 consecutive days without a rest day.	Factory now makes a precise calculation of all working hours including OT for all workers and pays workers accurately based on the working hours that recorded. All workers are guaranteed a weekly rest day. The factory still has excessive working hours of over 3 hours OT per day for some workers.
Safe and healthy working environment	Detergents not properly stored. Storing tank for diesel not properly protected against leakages. Fire alarm for computerized-embroidery too far away from the work place; workers with earplugs will not be alerted visually.	Detergents properly stored. Diesel tank appropriately protected. New fire alarm system installed at the embroidering section, can now be heard and seen by workers.
Legally binding employment relationship	60% workers fully registered with national social insurances. For migrant workers who wish to not enroll for government insurance, factory provides commercial injury and medical insurance.	67% workers fully registered with national social insurances. For migrant workers who wish to not enroll for government insurance, factory provides commercial injury and medical insurance.

Improvement of labour conditions: summary of most important findings	A supplier (in Thailand) audited in Dec 2009	A supplier (in Thailand) audited in February 2012 to verify improvements
Sourcing practices of FWF affiliate	None.	None
Monitoring system of FWF affiliate	None.	The CoLP at the factory did not include contact details of FWF and the local complaints handler.
Management system of factory to improve labour standards	In case workers do not take their entitled paid annual leave, they are not compensated. The annual leave could not be postponed to the following years.	In case workers do not take their entitled paid annual leave, they are not compensated. The annual leave could not be postponed to the following years.
Communication, consultation and grievance procedure	Workers are not aware of the welfare committee. There is no formal grievance policy. Sub-contractors are not informed about FWF's CoLP	Workers are not aware of the welfare committee. There is no formal grievance policy. Sub-contractors are not informed about FWF's Code of Labour Practices
No forced Labour	Employees are not allowed to take leave before and after the public holidays.	Employees are not allowed to take leave before and after the public holidays.
No discrimination	Management says hiring workers for the production are required age 18-35 and who are above 35 years old will not consider to be hired.	None
No child labour	None.	None
Freedom of association	Workers were not aware of their rights to collective bargaining and unionization.	Workers are not aware of their rights to collective bargaining and unionization.
Living wage	There were six workers in the ironing section paid by piece rate. Minimum wage and OT premium were not guaranteed under this practice. The factory deducted workers salary for uniform. It also deducted costs for annual work permit and medical checks for Burmese workers.	The factory paid at least minimum wages to workers. There is no deduction for uniform, medical checkup and work permit. The wage level has not yet reached living wages as defined by key stakeholders.
Reasonable hours of work	Excessive overtime was found. Some workers did not have one day off in every 7 days of work.	Excessive overtime was found at the factory. Some workers did not have one day off in every 7 days of work.
Safe and healthy working environment	There were a number of issues regarding fire safety, chemical safety and material safety.	Many OSH issues had been solved. Some new issues were found.
Legally binding employment relationship	Employment contract was not offered to workers.	The factory provided workers with a standard employment contract acquired from the government. All workers are now offered contracts. However the contract is in Thai language, which cannot be understood by many Burmese migrants working in the same factory.