



Fair Wear Foundation

**Management system audit report  
Continental Clothing Company Ltd.  
13<sup>th</sup> October 2010**

***FWF member since: 2<sup>nd</sup> October 2006***

***Sources of information***

- A: Database FWF
- B: Annual report and work plan
- C: Archived documents
- D: (Head of Products) Mariusz Sochaj
- E: (CSR / contact person for FWF) Mariusz Sochaj
- F: (Sourcing/Production ) Mark Zeegan

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Fair Wear Foundation

## 1. Introduction

In October 2010 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Continental Clothing Company Ltd (hereafter Continental). The MSA is a tool for FWF to verify that Continental implements the management system requirements for effective implementation of the Code of Labour Practices (CoLP), as specified in the FWF Charter.

Starting point for the MSA has been the draft of MSA for 2009. During the MSA, employees of Continental were interviewed and internal documents have been reviewed.

FWF developed this report on the basis of findings collected during the previous audits and 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 Continental in implementing the Code of Labour Practices. The numbering of the requirements and recommendations corresponds with the numbers of the conclusions.

This report focuses on those aspects of the management system of Continental that have been identified as key areas of interest for 2010. As FWF approaches the implementation of the Code of Labour Practices as a company specific process, it is well possible that MSA reports of different companies will focus on different aspects of the management system.

FWF will publish the conclusions, requirements and recommendations of all MSAs on [www.fairwear.org](http://www.fairwear.org). The detailed findings will remain confidential. FWF encourages Continental to include information from the MSA report in its social report.



## 2. Executive summary

Continental has been FWF's member since October 2006. 75% of Continental's production in 2010 was made in its supplier in Turkey, which has worked with the company for over 13 years. Continental has active business relationship with two other suppliers in India and China for about 3 years. In 2010, Continental has started to work with a new factory in India.

The sourcing strategy of Continental has been building long-term relationship with stable suppliers and stabilising product price by purchasing cotton in advance. Sufficient and timely supply of cotton is crucial for delivery time according to Continental. Continental is willing to support its suppliers in reducing OT and increasing wages, but lead time and living wage have not yet been included in negotiations with suppliers.

Continental had initiated audits in its three long-term suppliers in 2007. No Child labour or forced labour were found in any of the suppliers. The most recent audit by FWF local audit team was at a supplier in India in July 2009. This supplier has obtained a valid SA8000 certificate. Findings from the audit suggested improvement. It is shown that the factory phased out its previous system employing temporary workers and has offered permanent contracts to all workers. The factory in Turkey had also made improvements from 2007 to 2008. Discrimination was eliminated. Major OSH problems were solved. Minimum wages were paid, but excessive overtime still existed. There has been only one audit in the supplier in China in 2007. Follow-up is needed to improve working condition.

## 3. Positive findings

<b>Conclusions</b>
<ol style="list-style-type: none"><li>1. Continental maintains long term relationship with its suppliers.</li><li>2. Continental is actively informing the public about its FWF membership.</li></ol>

## 4. Sourcing

<b>Conclusions</b>
<ol style="list-style-type: none"><li>1. According to the company, quality, reliability, pricing, lead time and CSR are equally important for Continental. When choosing a new supplier, it is not necessary for the company to select a supplier who has already a good management system. It is important that the factory is willing to improve and committed to social standards.</li><li>2. Continental has worked with three suppliers in Turkey, India and China. The Turkish factory has supplied Continental for over 13 years, which accounted for about 75% of the total production. Both suppliers in India and China have worked with Continental for 2-3 years. A new factory in India has joined the supply chain to manufacture organic cotton products in 2010.</li><li>3. Continental tries to stabilise price by purchasing 25% cotton at the beginning of the year. It respected suppliers and did not change suppliers to reach lowest price. If a supplier could not produce a certain product under the required price, Continental</li></ol>

would consider alter the design or change the product.

4. Continental is willing to support its suppliers in reducing OT and increasing wages, but lead time and living wage have not yet been included in negotiations with suppliers. The supplier in India has a valid SA8000 certificate. It regularly did self-assessment on living wage among workers. Based on the factory's self-assessment results, Continental concluded that workers' current wages were enough for living, thus no further negotiation on living wage was made.
5. Lead time is usually four to twelve weeks. Continental contacted suppliers almost daily and kept them updated on its production plan. Continental ensured timely delivery through production planning together with suppliers and continuous cotton supply. For newly established production lines, Continental assessed and discussed output with the supplier weekly, so that immediate action could be done if production ran slow.
6. As suppliers have not risen to Continental that lead time was a problem, overtime was not discussed with the suppliers. During the audits in the factories in Turkey and China by FWF team, excessive overtime was found.
7. Continental has a written policy on social compliance on the implementation of FWF's Code of Labour Practices. The policy is included in its suppliers manual and distributed to all suppliers.

### ***Recommendations***

4. Continental is recommended to discuss living wage with its suppliers. It could use the FWF wage ladder as a reference. The wage ladder includes different benchmarks of living wage provided by various key local stakeholders. It visualises the gaps between wages in the factory and the level of living wage based on studies conducted by stakeholders. Factory's self assessment on living wage could be reliable, but local stakeholders' demands should be taken into account when determining workers' living wage level.
6. As excessive overtime was still observed in the factories in Turkey and China, Continental is recommended to discuss with these two factories and conduct OT analysis. The analysis should demonstrate the root causes of excessive overtime and solutions towards reducing it. If OT is caused by internal managerial problems in the factory, Continental could provide capacity training to increase productivity. In case it is the result of short lead time of Continental or other customers, Continental should consider extending lead time and/or seeking cooperation with other customers. FWF had worked with various NGOs and local consultants on reducing OT in garment factories. Upon request, FWF is available to give further support and information.

## 5. Coherent system for monitoring and remediation

### *Conclusions*

1. Continental has been a member of FWF since October 2006. 90% of Continental's turnover audited by FWF from 2008 to 2010. This meets the requirement of FWF. Major problems regarding living wage and overtime were found in the Chinese supplier, but it was not re-audited since 2007.
2. Continental maintained telephone communication daily with the suppliers in Turkey and in India. For Continental, it has been an effective way to follow up on CAPs. The supplier in China was not re-audited. Continental is considering if it will continue to source from this factory.
3. Continental collected reports of two recent audits conducted in 2009 for its new supplier in India. Audit report for the supplier in Turkey in 2010 was also collected to monitor working condition.

### *Recommendations*

1. Continental should enhance its monitoring to suppliers. Only telephone communication is not enough to prove improvements have been achieved. To avoid double auditing, FWF encourages companies to acquire recent audit reports from the factory and support them on following up CAPs.
2. Continental should have face-to-face communication with the factory in China on compliance issues. The latest audit in the factory was conducted in 2007. Follow-up progresses on CAPs were not known to Continental. It is recommended that Continental discuss with the factory on a capacity building project on increasing productivity and reducing overtime. Training will benefit the factory in improving working condition as well as improving communication on various issues. FWF has worked with consultants and NGOs in China who have experience in capacity building for factories. Information could be shared with Continental upon request.

## 6. Complaints procedure

### *Conclusions*

1. Continental has a designated person to handle complaints received from workers in their suppliers.
2. Continental does not have an internal formal complaints handling procedure but it cooperates with FWF and follows FWF's procedures.
3. No complaints have been received since being a member of FWF in 2006. FWF's Code of Labour Practices (CoLP) was not posted in the suppliers in Turkey at the time of the audits. The CoLP did not contain telephone number of FWF's local complaints handler in India. The CoLP was posted in the factory of the Chinese supplier.

**Requirements**

- Continental should ensure all suppliers post the CoLP with the contact details of FWF's local complaints handler. One of the effective ways to monitor posting of the CoLP is to let purchasing and quality staff check during every visit to the factories if the CoLP is posted and if the document is posted in the workplace in an area which is freely accessible to workers.

**Recommendations**

- It is recommended that Continental provides training on FWF's Code of Labour Practices to workers to increase the awareness on the complaints handling system.

**7. Improvement of labour conditions**

**Conclusions**

- Turkey: The supplier in Turkey was audited by FWF audit team in June 2007 and in October 2008. Improvements were made after the first audit. The factory had developed recruitment policy to prevent discrimination. Major OSH problems were solved. Minimum wage was paid in accordance with local labour law, but excessive OT was used. It was observed that the factory operated over 60 hours per week during peak seasons. Several items in employment contract were found to be not in line with the law. There was no union in the factory and workers were not aware of their rights of collective bargaining. The factory was audited by an auditing company in June 2010. No non-compliance was found according to this audit. However, the audit report did not provide detailed information on working hour and payment of overtime. Living wage was not a requirement in this audit. Situation on freedom of association and grievance procedure were also not reported.
- India: The old supplier in India was audited in September 2007 and in July 2009. Most important improvement was that the factory had abandoned the system of maintaining temporary workforce. All workers were offered permanent contracts. No forced labour or child labour were found in the factory. Forced time off without pay was still used in the factory. Although minimum wage was paid, industrial Collective Bargaining Agreement wage was not paid.

Continental has collected two audit reports from the new supplier. One audit was conducted by an auditing company in August 2009 and the other one was by a business-driven initiative in January 2009. No major non-compliance was found according to both reports. An elaborated report was provided by the auditing company, which gave detailed information on all eight labour standards of FWF. The report claimed that minimum wage was paid but dearness allowance was not mentioned. The calculation and source of information regarding living wage were not provided in the report. As a result, FWF could not conclude that the new supplier has complied to the CoLP.

According to FWF's key stakeholders, forced labour is prevalent in the area of Tirupur and Coimbatore. Continental considered it as high risk and provided support to FWF on drafting a strategy on elimination of forced labour. Both Continental's suppliers attended FWF's suppliers meeting in Tirupur in October to discuss the issue.

- China: The factory was audited in October 2007. It had not established a system to



keep proper documents of its workers. Although no child labour was found on the site, it was found that juvenile workers were working OT. The factory did not keep copies of workers' age proof documents, such as identification card. Minimum wage was paid in the factory. Excessive overtime was found and OT was not paid on a premium rate. According to Continental, the factory had shown very little interest in social compliance and cotton traceability. It did not make much progress in the past three years. Since there were also production problems, Continental would consider whether to continue its business relationship with the factory in 2011.

### **Recommendations**

1. Since the recent audit did not fully meet FWF's audit standards, it is recommended that Continental enhances its monitoring approach at the Turkish supplier. One option is that Continental initiates a new audit in the factory by FWF local audit team. Another option is that Continental provides a training to workers with the support of FWF. The training should include issues on social dialogue, overtime and payment of living wage.
2. Continental could discuss with the supplier and support it on improving wage level. The FWF wage ladder can be used as a tool to implement living wages. Most relevant wages, such as local minimum wage, Asia Floor Wage, collective bargaining wage (CBA wage) and industrial best practice wage are provided in the wage ladder. It demonstrates the gaps between workers' wages at a factory and living wages estimated by major local stakeholders. Continental can use the wage ladder to document, monitor, negotiate and evaluate improvements on wages at its suppliers.  
  
In addition, Continental could use FWF's [audit quality assessment tool](#) to determine if the quality of previous audit reports meets the requirement of FWF.
3. Supplier's own commitment on social compliance issues largely contributes to the effectiveness of implementing FWF's CoLP. Factories in China usually do not have experience on the benefit of meeting social standards. Wage growth and decreasing OT could increase work satisfaction, thus might consequently reduce workforce turnover and improve productivity. Protection of juvenile workers could effectively save the cost of workplace injuries. Continental should re-audit or provide workers training to the factory if it would continue to work with the Chinese supplier.

## **8. Training and capacity building**

### **Conclusions**

1. Office staff in Continental were familiar with FWF's requirements.
2. All suppliers of Continental have been informed about FWF membership.

## **9. Information management**

### **Conclusions**

1. Continental worked with only four suppliers. Sourcing strategy of Continental has not been changed over the past few years. It would continue to work with the existing





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| suppliers without expending the list.   |
| 2. There was no formal system to update and maintain data on factory improvement and follow-up of CAPs. |

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| <b>Recommendations</b>  |
| 2. Continental is recommended to develop a simple information management system to maintain data of factories on social compliance issues. Continental could utilise the excel form with CAPs in the FWF audit report and update it when new information arrives. |

## 10. Transparency

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| <b>Conclusions</b>   |
| 1. Continental published its FWF membership on its website catalogues. It also informed the public about its work with FWF in various public events. |

## 11. Management system evaluation and improvement

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| <b>Conclusions</b>  |
| 1. Continental has informally collected information from its customers and suppliers to evaluate its FWF membership. All feedback received was positive thus far. |

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| <b>Recommendations</b>  |
| 1. It would be beneficial for Continental to document the evaluation results in a logbook. Evaluation could be done annually to determine the effectiveness of the process on improving working conditions in factories. Recording the evaluation would help Continental to better formulate work plan for the next year. |

## 12. Basic requirements of FWF membership

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| <b>Conclusions</b>  |
| 1. Continental did not hand in its annual social report 2009 and its work plan 2010. Continental and FWF had not maintained active communication at the beginning of 2010. The contact was re-established in September. |
| 2. Continental has paid its membership fee for both 2009 and 2010.  |



**Requirements**

1. Continental should hand in its annual social report and work plan according to FWF's requirement. The work plan should be finalised by 31 December of each year. The annual report should be submitted before 15 March the next year. Continental can contact FWF for extra support for developing the documents when needed.

**13. Recommendations to FWF**

**Recommendations**

1. FWF had conducted an MSA in Continental in 2009 but the result was not published. Continental believes that third party reports such as MSA are more reliable for stakeholders and would help the company to improve its work on social compliance. Continental is eager to see the report of MSA 2010.
2. FWF should make the public more aware of its work.

**Annex: Improvement of working conditions**

*The Annex only includes detailed findings by FWF local audit teams.*

	<b>Summary of most important findings from FWF audits (October 2008) carried out on behalf of Continental in Turkey.</b>	<b>Summary of most important findings from FWF audits (June 2007) carried out on behalf of Continental in Turkey.</b>
<b>Workers interviews</b>	Twenty-five employees were interviewed in the factory with the absence of factory management.	No offsite interviews were conducted. Short interviews and a meeting were held at the factory with the absence of the factory managers.
<b>Documentation</b>	Workpermit of the factory was missing.	Occupational accident record was not complete. There was no health checkup documents of cleaners.
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Not part of the audit	Not part of the audit
<b>Monitoring system of FWF member company</b>	No CoLP was posted in the factory.	The factory had not received CoLP.
<b>Management system factory to improve labour standards</b>	Not part of the audit	Not part of the audit
<b>Communication, consultation and grievance procedure</b>	There was not a written grievance procedure.	There was no grievance mechanism.
<b>Employment is freely chosen</b>	No non-compliance	No non-compliance
<b>No discrimination in employment</b>	No non-compliance	There was no written hiring, discipline or promotion policies. During the recruitment interview, women were asked whether they were intended to be pregnant in two years of time.
<b>No exploitation of child labour</b>	No non-compliance	No non-compliance
<b>Freedom of Association and the Right to Collective Bargaining</b>	There was no trade union in the factory.	There was no union in the factory. Workers had low awareness of freedom of association and the right of collective bargaining.
<b>Payment of a Living Wage</b>	Payslips did not contain all detailed information about wage.	Minimum wage was paid.



<p><b>No excessive working hours</b></p>	<p>Despite there was a reduction trend on OT work within last three months, weekly average total working time exceeded 60 hours during peak seasons (May to July).</p>	<p>Workers worked 71-54 hours per week in average during March to May.</p>
<p><b>Occupational health and safety</b></p>	<p>Maintenance and periodical control reports of fire alarm system and fire alarm buttons were missing. There was no training on OSH.</p>	<p>Emergency lines did not connected to each other on the ground floor. Emergency exits were not facing different directions. First aid training was not conducted. There was no protection board or goggles for button machines. There was no needle guard for sewing machines. No metal hand gloves were provided for workers operating cutting machines. Steam boiler was too closed to work station. There was no plastic mat in front of the power panel. There was no MSDS for chemicals.</p>
<p><b>Legally binding employment relationship</b></p>	<p>Article number 10 of the employment contract stated that “employees have to stay overtime whenever asked”. “Terms of Agreement” contains many items that were not in accordance with the labour law, such as monetary fines and annual leave period determination.</p>	<p>Workers did not receive copies of their contracts.</p>
<p><b>Special remarks</b></p>	<p>None</p>	<p>None</p>

	<b>Summary of most important findings from FWF audits (October 2007) carried out on behalf of Continental in China</b>
<b>Workers interviews</b>	Workers were interviewed prior to the on-site audit.
<b>Documentation</b>	Resignation registers, sickness registers, penalty records, grievance registers, maternity leave register, records for juvenile workers, and annual leave registers were not available to the audit team during the audit process.
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Not part of the audit
<b>Monitoring system of FWF member company</b>	Not part of the audit
<b>Management system factory to improve labour standards</b>	Not part of the audit
<b>Communication, consultation and grievance procedure</b>	The grievance procedure was not made known to the workers.
<b>Employment is freely chosen</b>	No non-compliance
<b>No discrimination in employment</b>	No non-compliance
<b>No exploitation of child labour</b>	The factory did not include copies of Identification cards in workers' personal profiles. It did not maintain records of its juvenile workers and did not restrict their overtime.
<b>Freedom of Association and the Right to Collective Bargaining</b>	Workers did not understand the function of a union and collective contracts.
<b>Payment of a Living Wage</b>	OT compensation was not upto the law prescribed amount. Due to the absence of documents and records, the audit team could not verify whether the workers could enjoy paid annual leave or holiday. Paid sick leave was not given to workers.
<b>No excessive working hours</b>	A significant number of workers were working 11½ to 12½ hours a day for 6 days a week at least. One day off per week was not guaranteed. Workers had two days off per month.



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<b>Occupational health and safety</b>	Emergency exit routes were not marked. The emergency evacuation charts was not updated. Protective gears were installed in the specified sewing machines.
<b>Legally binding employment relationship</b>	No non-compliance
<b>Special remarks</b>	None

	<b>Summary of most important findings from FWF verification audit (July 2009) in India.</b>	<b>Summary of most important findings from FWF verification audit (September 2007) in India.</b>
<b>Workers interviews</b>	Five workers were interviewed prior to the date of the audit.	Six workers were interviewed prior to the date of the audit.
<b>Documentation</b>	No non-compliance	Information about temporary workers were not kept.
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Not part of the audit	Not part of the audit
<b>Monitoring system of FWF member company</b>	No issue	Code of Labour Practices was not given to the factory.
<b>Management system factory to improve labour standards</b>	Not part of the audit	Not part of the audit
<b>Communication, consultation and grievance procedure</b>	Contact number of FWF local complaints handler was not displayed in the factory.	There was no formal grievance procedure in the factory.
<b>Employment is freely chosen</b>	No non-compliance	No non-compliance
<b>No discrimination in employment</b>	No non-compliance	No non-compliance
<b>No exploitation of child labour</b>	No non-compliance	No non-compliance; but age proof documents were not kept for temporary workers.
<b>Freedom of Association and the Right to Collective Bargaining</b>	There was workers' committee but no forum of collective bargaining.	Workers committees were established but they were not functioning.
<b>Payment of a Living Wage</b>	Legal minimum wage was paid to workers but it was not above CBA wage which was followed by most business in the area. Forced time off without pay was still used in the factory.	Legal minimum wage was paid to workers but it was not above CBA wage which was followed by most business in the area. Wage records for temporary workers were not available. According to workers, OT wage was paid in single rate to temporary workers. When there was a production problem, workers had forced time off without pay.



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<b>No excessive working hours</b>	No non-compliance	OT records for temporary workers were not available.
<b>Occupational health and safety</b>	MSDSs in local language were missing.	There was leakage in steam pipes. The multi-storey building did not have external fire exit. There was no permit from Fire Services Station. Dormitory facility provided to some workers had poor infrastructure and ventilation.
<b>Legally binding employment relationship</b>	No non-compliance. Temporary workers system had be abolished.	Temporary workers were not given contracts. These workers were closed to 20% of the total workforce.
<b>Special remarks</b>	None	None