

Management system audit report
Continental Clothing Company Ltd.
October 2011

FWF member since: 2nd October 2006

Sources of information

A: Database FWF

B: Annual report and work plan

C: Archived documents

D: (Head of Products, CSR/contact person for FWF) Mariusz Sochaj

E: (Sourcing/Production) Petra Loibl

Audit conducted by:

Juliette Li

Index

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

1. Introduction

In October 2011 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 MSA of 2012. 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 2011. 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. The detailed findings will remain confidential. FWF encourages Continental to include information from the MSA report in its social report.

2. Executive summary

Continental meets most FWF's management system requirements. The sourcing strategy of Continental supports the implementation of the Code of Labour Practices. Continental works with four suppliers located in Turkey, India and China. Three of the four suppliers are factories that have supplied to Continental for over 5 years. Continental maintains frequent and regular contacts with the suppliers. Suppliers are informed about Continental's production plan in advance.

Continental has monitored over 90% of its total annual purchasing volume in the last three years, which meets FWF's monitoring requirement. Three of Continental's suppliers have joined FWF's training projects in Turkey and in India.

Continental informs the public actively regarding FWF membership.

3. Positive findings

<i>Conclusions</i>
<ol style="list-style-type: none">1. Continental maintains stable suppliers since joining FWF. The company values long term relationship with its suppliers.2. Continental supports FWF's new verification approaches on social dialogue and reducing violence against women at factory level by strongly encouraging its suppliers to participate in the projects.3. Continental is actively informing the public about its FWF membership.

4. Sourcing

<i>Conclusions</i>
<ol style="list-style-type: none">1. Continental values long term business relationship with the suppliers. Three out of four suppliers have worked with the company for more than 5 years. The three suppliers located in China, India and Turkey produce in total 99% of the Continental's purchasing volume. Continental started to source from one new supplier in India in 2010 and established a stable relationship since then.2. Continental has significant leverage over two suppliers. Continental purchases more than 10% of the annual total production of the two factories respectively. About 30% of Continental's total buying volume is from these two suppliers.3. Social compliance is considered equally important with quality, reliability and pricing, when choosing a new supplier. Continental collected recent audit reports and assesses working condition before contracting the new supplier in India. FWF's questionnaire on working condition has been filled in and submitted by all suppliers.4. Continental announces its production plan in advance. Frequent communication is maintained to make sure timely delivery. 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.5. Issues concerning excessive overtime were found in suppliers in Turkey and China in

2007-2008. A new audit is planned in the beginning of 2012. Continental was recommended to conduct OT root causes analysis during the MSA in 2010. Continental believes that suppliers would improve working condition by receiving trainings. Continental encouraged its suppliers to participate in two FWF projects in India and Turkey (see chapter 5 Coherent System for Monitoring and Remediation).

6. Continental has a written policy on social compliance on the implementation of FWF's Code of Labour Practices. The policy is included in its supplier's manual and distributed to all suppliers.

Recommendations

5, 6. Excessive overtime was observed in previous audits at two suppliers. Continental was recommended to conduct OT analysis at its two major suppliers in 2011. The Turkish supplier is participating in FWF's project to improve communication between factory and workers. Continental could support the factory by closely follow up on the progress.

Continental is recommended to discuss living wage with its suppliers using the FWF wage ladder (included in the audit reports) 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. Continental could discuss with the suppliers on how it could best support them to reach the next benchmark of living wage.

5. Coherent system for monitoring and remediation

Conclusions

1. Continental has been a member of FWF since October 2006. Three out of the four suppliers have joined FWF's training project. 99% of Continental's turnover is considered being monitored. This meets the requirement of FWF.
2. One of Continental's Indian suppliers was audited in 2011. The supplier in Turkey will be audited in January 2012. Both audits were conducted by FWF audit teams as part of the projects organised by FWF.
3. Major problems regarding living wage and overtime were found in the Chinese supplier, but it has not been re-audited since 2007. It is the strategy of Continental to focus on main suppliers in India and Turkey.
4. Continental maintains regular contact with suppliers to discuss the audit results and the progress of the training projects.

Recommendations

4. FWF encourages Continental to be more proactive in following up the corrective action plans and document the process.

The projects will provide skills and knowledge to the factories and workers on communicating effectively. Continental could discuss with the suppliers on most urgent issues and support them to implement remediation. (See chapter 7 for more details)

6. Complaints procedure

Conclusions

1. Continental has a designated person to handle complaints that 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. The workers information sheet in Tamil language was found posted at the audited supplier in India in 2011. Workers were not informed about the labour standards of FWF. This supplier is a common supplier of three FWF affiliates.

Recommendations

3. Continental is recommended to work with other FWF affiliates sourcing from the same factory to follow up on the workers information sheet. The information sheet in Hindi should also be provided to the factory since there are migrant workers from other regions who do not speak Tamil language.

7. Improvement of labour conditions

Conclusions

1. An audit was conducted at the new supplier of Continental in South India. The supplier was a vertically integrated garment and textile factory. The audit covered spinning, dyeing and Cut-Made-Trim (CMT) processes. A summary of the findings is provided below.
 - No violation is found regarding child labour and discrimination.
 - At the spinning mill, workers living in hostels were not permitted to leave the factory premises unless accompanied by the warden. Both workers and management believed that it is because of personal security reasons.
 - Minimum wages were paid at all units. The wage levels did not meet living wage demands by FWF key local stakeholders.
 - There was no overtime at the CMT units. Excessive working hours was found at

the spinning unit. Inaccurate working hour record was found at the dyeing unit.

- Workers were offered employment contracts.
- Occupational health and safety issues were discovered during the audit.

The supplier was cooperative and had provided all information needed for the audit. A followup visit was planned by the other customer of the factory, which is also an affiliate of FWF.

2. Continental has started to work in a project with FWF in South India to empower women workers at the above supplier. The project provides trainings to workers and management on communication. It also gives opportunity to women workers to set up functioning anti-harassment committees representing their voices and their rights.

Recommendations

1. FWF recommend Continental to work with the other buyer of the factory to improve workers' freedom of movement. FWF believes that the factory should give full permission to workers to leave the factory and the hostel after working hour. The factory manager has responded to the issue. Due to cultural differences, it is appropriate that FWF affiliates give time to the factory on remediation but continue the discussion.

8. Training and capacity building

Conclusions

1. Office staff in Continental was familiar with FWF's requirements.
2. All suppliers of Continental have been informed about FWF membership.
3. Continental has started to work with FWF on two training projects for workers in Turkey and in India.

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 suppliers without expanding the list.
2. There was no formal system to update and maintain data on factory improvement and follow-up of corrective action plans (CAPs).

Recommendations

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

Conclusions

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

Conclusions

1. Continental has informally collected information from its customers and suppliers to evaluate its FWF membership. All feedback received was positive thus far.

12. Basic requirements of FWF membership

Conclusions

1. Continental has handed in its work plan for 2011 and social report 2010. The work plan for 2012 and social report 2011 are expected on 31 December 2011 and 15 March 2012 respectively.
2. Continental has paid its membership fee for 2012.

13. Recommendations to FWF

Recommendations

Continental recommended FWF to explore the opportunities to work with Global Organic Textile Standard (GOTS). Since the company is actively involved with GOTS, it is enthusiastic to make the connection for FWF and support the cooperation whenever applicable.