



Fair Wear Foundation

Management system audit report

Expresso Fashion B.V.

20th of April 2009

FWF member since: 01-02-2004

Sources of information

- A: Database FWF
- B: Annual report and work plan
- C: Archived documents
- D: Benny Garcia (General Director)
- E: Nienke Steen (CSR / contact person for FWF)
- F: Mariëlle Wagemaker and Carolien Koenen (Sourcing / Production)
- G: Judith Kruijdenberg (Communication)
- H: Mariëlle Oostijen (Sales)

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Index

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



1. Introduction

In April 2009, Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Espresso Fashion B.V. The MSA is a tool for FWF to verify whether Espresso Fashion B.V. 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 2009 and annual social report 2008 of Espresso Fashion B.V. FWF tailored the MSA to the specifics of the management system of Espresso Fashion B.V. to assess the key issues of interest. During the MSA, staff was 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, recommendations and an annex which includes detailed findings. All conclusions have been based on detailed findings. 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 Espresso Fashion B.V. in implementing the Code of Labour practices. FWF cannot rule out the possibility of there being other aspects of the management system of Espresso Fashion B.V. that need improvement at a later point in time.

Espresso Fashion B.V. has had the opportunity to comment on the content of a draft report before this report was made definitive.

From 2009 FWF will publish the conclusions, requirements and recommendations of all MSAs on www.fairwear.org. Detailed findings will remain confidential between FWF and the member company. FWF encourages Espresso Fashion B.V. to include information from the MSA report in its annual social report.

This MSA report of Espresso Fashion B.V. does not contain an annex with the results of FWF audits conducted at the suppliers of Espresso Fashion B.V. This is because FWF had not developed that reporting system at the time of the MSA. At the next MSA FWF will publish the findings of FWF audits carried out at the suppliers of Espresso.



2. Executive summary

Expresso Fashion B.V. is actively working with implementing the FWF code of labour practices since 2004. The company has a good overview of the level of their suppliers compliance with the FWF code of labour practices at over 90% of their suppliers. The level of compliance is also transparently shown in their annual social report available to the public.

The routines for the work on code implementation has not yet been formalised and is dependent on personal knowledge and engagement within the company. To avoid vulnerability of CSR work to changes at Expresso Fashion B.V. Fair Wear Foundation recommends that the routines should be written down and approved by management. There is also a need to formulate a written sourcing policy with long- and short-term aims clarifying in which part of the purchasing process the CSR-responsible person will be consulted.

The follow up of corrective action plans for factories is done in a systemised way clearly showing that progress is being made for some of the suppliers. This system of systematic follow up now needs to be rolled out to all suppliers. It is also of importance that there is a more rigid follow up of suppliers that are audited by others than Expresso Fashion B.V. or Fair Wear Foundation.

3. Positive findings

Conclusions
1. The sourcing department is regularly updated about the status of corrective action plans at suppliers.
2. Expresso encourages dialogue on how planning can be done better with their suppliers, sometimes even to the level of the subcontractors.
3. Where possible, depending on type of product manufactured and demand, Expresso has an ambition to reward good suppliers with more orders. Expresso can also demonstrate that this has been done.
4. Expresso clearly shows the state of corrective action plans for suppliers and priorities (for example in their work plan for 2009 submitted to FWF).

4. Sourcing

Conclusions
1. Sourcing policy should support effective implementation of code, but presently there is no written sourcing policy approved by management.
2. Expresso has not finished the work on their quality manual that will contain sourcing policies, but states that the sustainability requirements will be finalised soon and will be send to all suppliers and FWF.
3. Expresso expresses commitment to continue to strive for long term relations with their suppliers.
4. New suppliers are assessed according to code compliance as well as margin, quality and lead time. However no written policy available on how and what weight is given to code compliance. Expresso states that this will be developed in the quality manual.
5. Expresso always tries to stick to the agreed delivery times, the consequence can for example be that suppliers can be asked to pay for airfreight if the

<p>arranged delivery time is not kept or delayed because of a mistake by the supplier. However, in Espresso's yearly evaluation with suppliers lead times have not been criticised by suppliers.</p>
<p>6. When a suppliers gives Espresso a suggested price that results in a price margin that will be too narrow, the supplier is sent back to recalculate the price. If necessary, Espresso also makes changes to lower production costs by changing design, or they remove the item from the collection.</p>
<p>7. Espresso's ambition is to reward suppliers who perform well with more orders. However, this is hard to put into practice for product types where Espresso only has one supplier.</p>
<p>8. Decisions are made in consultation with the director, with a liberty of action. Many of the decision-making processes are informal and fall under the responsibility of several functions within Espresso.</p>
<p>9. The sourcing department finds that offering better pay in order to improve wages puts Espresso in a bad bargaining position. Espresso has no clear plan how to solve this conflict between being willing to pay for better working conditions and still wanting the best price possible.</p>
<p>10. The sourcing department meets with the CSR responsible person every two months to be informed about how suppliers are performing regarding code implementation.</p>
<p>11. Espresso states that if suppliers would express that they wanted more for their products in order to pay higher wages, this would seriously be considered by Espresso. At the same time Espresso clearly states that they do not trust some of their suppliers to pass on increased payments to workers. The conclusion is that it is the responsibility of the supplier to come with a price suggestion that includes living wages. The sourcing department of Espresso cannot calculate prices that include living wages and then offer supplier a higher price.</p>

<p>Recommendations</p>
<p>1. Formulate a written sourcing policy with long- and short-term aims clarifying in which part of the purchasing process the CSR-responsible person will be consulted.</p>
<p>8. To avoid vulnerability of CSR work to changes at Espresso the routines should be written down and approved by management.</p>
<p>6. When suppliers come back with new price estimates, Espresso should stress that it is not acceptable that prices are cut in ways that negatively effects code compliance and to the extent possible make sure that this is not the case. Since suppliers have raised the issue of pricing in the yearly evaluation, it makes this an even more important area to follow up.</p>
<p>11. Espresso finds it difficult to negotiate about living wage and could therefore use the wage ladders in the FWF audit reports to track their suppliers' movement towards living wages.</p>

5. Coherent system for monitoring and remediation

Conclusions
1. According to the supplier register provided to FWF 96 percent of the Espresso's turnover has been audited or is situated in low risk countries. This corresponds to the required percentage based on the duration of FWF membership. However, according to the same register 11 percent has not been audited, this shows that the percentages in the supplier register are not correct.
2. The corrective action plans resulting from conducted audits by FWF teams are followed up, but this is done on a case-to-case basis depending on country and factory. The improvement results are also registered in different ways.
3. Espresso is now developing systems to follow up and report on the corrective action plans resulting from conducted audits with FWF teams. This is done on country basis by Espresso's local contact (agent). The system is so new that Espresso has not been able to evaluate the effectiveness through the FWF audits.
4. For factories not audited by Espresso (i.e. India, Poland and Lithuania), documentation is asked for regarding code compliance (for example audit protocols of other buyers), however no systematic follow up of the information from these are made.
5. Espresso visits most of their suppliers yearly, exceptions are Poland and Lithuania.
6. Espresso now files highlights regarding code compliance from meetings with suppliers.
7. Espresso has tried to cooperate with other customers of manufacturers regarding monitoring and the execution of Corrective Action Plans at one instance but without positive response from the other buying company.

Requirements
1. Espresso needs to make sure that the percentages of how much their different suppliers produce for them are correct in the supplier register provided to FWF.
5. Espresso should follow up relevant documentation such as corrective action plans from their suppliers, also from those suppliers where Espresso has not initiated the audit.
3&4 Espresso should implement the system for "corrective action plan-follow up" that is being tried out in Turkey and Bulgaria (or a similar system adapted to local circumstances) for all suppliers.
3. Espresso should have an overview of all corrective action plans in order to prioritise follow up activities, at this time the overview is held by one person, the CSR responsible at Espresso.

Recommendations
4. Letting agents do follow up of corrective action plans at factory can strengthen the agent's commitment to code implementation and understanding. However, agents can have double interests and their performance in following up corrective action plans should be evaluated after the next full audit at supplier level.

6. Complaints procedure

Conclusions
1. Espresso has a designated person to handle complaints.
2. Espresso is responsive to complaints filed by workers at their supplier companies, as shown by the ongoing case at their supplier in China. However, the timeframe for response by Espresso and time given to supplier for corrections is not clear.
3. Espresso has received a complaint from workers at a Chinese supplier. The complaint concerns working times, incorrect remuneration of overtime and that wages are not paid in time and understood by the workers. To facilitate the improvement at this supplier, Espresso has engaged a local consultant that during 2009 will help the management of the factory to deal with the raised problems. Espresso has given the supplier until the end of the year to come up with a definite plan on how to improve, if this does not happen, Espresso will discontinue the cooperation in 2010.

Requirements
2. Espresso should define a level of ambition on how quickly they will respond to complaints and clear timeframes should be given to suppliers to respond to complaints.

Recommendations
3. The number of complaints is low. This might be a sign that workers are not well informed about the complaints mechanism. Espresso could focus more on information to workers and make sure they know that there is a complaints mechanism. This could for example be done by looking into the possibility to do workers trainings at key suppliers.

7. Improvement of labour standards

Conclusions
1. Turkey: The agent has been asked to follow up corrective action plan from the 2008 audits and report back to Espresso. According to the agent, 1/3 of issues have now been resolved. However, the agent reports that subcontractors are reluctant to give workers contracts because they wanted to be able to adjust the workforce to orders. Espresso has scheduled a new audit to follow up the corrective action plan in July 2009.
2. China: In China, work has focused on complaints handling (see above) and getting the new suppliers informed about FWF membership. The CSR responsible person has communicated with the new suppliers regarding code compliance (by for example the questionnaire), one of the factories has been audited by SGS and this is also used when deciding on how to follow up with these suppliers.
3. India: According to the factory register submitted for 2009, the Indian supplier produces 6% of Espresso's production and has never been audited by Espresso. Espresso has asked for Reeboks audit reports and has received

<p>them in parts. No formal follow up of Reebok corrective action plans have been made and documents received from Reebok's audits are inconclusive.</p>
<p>4. Lithuania: The owner of the factory is FWF member and Expresso therefore does not follow up labour conditions there in other ways than discussing the issue with the owner.</p>
<p>5. Poland: The two suppliers produces in total 9% of Expresso's production (3 and 6 % respectively) and has only had one visit by Expresso in the beginning of 2001, and then the audit by FWF in 2006. However, the CSR responsible person at Expresso has yearly meetings about CSR issues when the polish manufacturer visits Expresso's office in the Netherlands. Expresso knows that these suppliers have been inspected by the local labour inspectors.</p>
<p>6. Tunisia: The Tunisian supplier was audited in 2008 and the corrective action plan will be followed up through a limited audit or a visit by the FWF audit supervisor in 2009.</p>
<p>7. Bulgaria: The agent has been asked to follow up corrective action plan and is reporting to Expresso on the progress. According to the audit report, several subcontractors might do a large percentage of Expresso's production. On the point of wages, Expresso has not followed up the findings because they think that the finding on wages in the audit report was not correct. They hope that the audit in 2009 will give an answer to how the factory's wages compares to other in the region.</p>

<p>Requirements</p>
<p>4. Expresso should receive recent and complete audit reports made by FLA auditors from the Indian factory and/or conduct an audit of their own at the factory if it continues to produce more than 2% of Expresso's production.</p>
<p>5. The facility in Poland should be visited and the local labour inspections protocol translated from Polish.</p>
<p>7. Expresso should audit all subcontractors in Bulgaria that contribute to more than 2% of Expresso's production.</p>

<p>Recommendations</p>
<p>2. The new Chinese supplier that has not handed in an audit report initiated by another buyer should be given priority in following up labour conditions.</p>
<p>7. In the case that Expresso does not agree with the audits findings, this should be followed up with the audit team and /or FWF so that the issue can be resolved. Waiting for the next audit is not an option when it comes to such an urgent issue as wages.</p>

8. Training and capacity building

<p>Conclusions</p>
<p>1. Staff of Expresso is informed about FWF membership and the implementation of the Code of Labour Practices through CSR responsible at company meetings and educations. In addition, shop personnel of Expresso's own stores are informed.</p>
<p>2. Buyers from independent retailers are offered information on the CSR work</p>

of Espresso, but Espresso finds that their interest is very low and it is hard to reach them during sales days. Espresso feel that they would need a good short presentation (like a film clip) to reach them.
3. Agents are informed about FWF membership and the implementation of the Code of Labour Practices through CSR responsible person and by being asked to join audits and in some cases also follow up corrective action plans.
4. Manufacturers are informed about FWF membership and the implementation of the Code of Labour Practices through CSR responsible as well as sourcing.
5. Workers are informed about FWF membership and the implementation of the Code of Labour Practices through making sure that the FWF Code of Labour Practices is posted on the wall in the factory.

Recommendations

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| 5. More effort could be put into informing the workers about the code of labour practices, this can be combined with better information about the complaint mechanism |
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9. Information management

Conclusions

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| 1. There is a procedure to keep the supplier register updated. |
| 2. There is no central system in place to integrate information regarding sourcing and the implementation of the Code of Labour practices. |
| 3. The product managers are responsible to inform the CSR responsible person about changes among the suppliers so that the CSR responsible person can keep the supplier register updated. |

Recommendations

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| 2. Inform relevant staff where they can themselves find the updated information on code implementation at individual suppliers. When there is no integrated system for information on sourcing and code implementation, it becomes even more important that buyers, for example, know where to find and update info on code implementation on supplier level. |
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10. Transparency

Conclusions

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| 1. Espresso informs the public about its FWF membership through its website and a brochure available in the shops. |
| 2. The annual social report of the previous year has been approved by FWF and placed on the website of Espresso. |
| 3. Information about FWF membership is posted the website of Espresso is correct and factual |



11. Management system evaluation and improvement

Conclusions
1. Espresso has a clear plan for how to evaluate the work
2. Espresso collects feedback from suppliers for their management system evaluation

12. Basic requirements of FWF membership

Conclusions
1. Work plan for the current year has been received in time and approved by FWF
2. Membership fee for the previous year has been paid

13. Recommendations to FWF

Recommendations
1. Develop material that can be used to show for example retailers what FWF is. A short film clip would be ideal for this.
2. Ranking companies according to the outcome of verification would be a great incentive and also a reward for those that have made an effort.