



Fair Wear Foundation

## Management system audit report

**Filippa K**

**2011-01-31**

FWF member since: 1 March 2008

### ***Sources of information***

Database FWF

Annual report and work plan

Archived documents

Doreen Chiang (Head of production)

Elin Larsson (CSR-responsible)

Audit conducted by:

Henrik Lindholm



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## Introduction

In January, 2011 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Filippa K. The MSA is a tool for FWF to verify that Filippa K 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 for 2010. FWF tailored the MSA to the specifics of the management system of Filippa K in order to assess the key issues of interest. During the MSA, employees of Filippa K were 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 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 Filippa K 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 Filippa K that have been identified as key areas of interest for 2010. As FWF approaches the implementation of the Code of Labour Practices as a step-by-step process, it is well possible that MSA reports of subsequent years 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). FWF encourages Filippa K to include information from the MSA report in its social report.



## Executive summary

Filippa K had been affiliated to FWF for almost three years at the time of the MSA. The company is in the process of implementing the management system requirements of Fair Wear Foundation. The monitoring system of Filippa K consists of using FWF audit teams for factory audits and letting production managers together with agents follow up the corrective action plans at factory level. Through this monitoring system, Filippa K had covered a total of 87% of their supply chain by the end of 2010. Filippa K had audited 40% of the production and 47% of production was covered by the low risk policy.

Filippa K started their affiliation to FWF ambitiously in 2008 having one full time staff dedicated to CSR issues including the FWF membership. During 2009 and 2010 Filippa K underwent several important strategic changes. In this period the company was also been evaluating their CSR work to decide where to focus their future efforts. In 2009 the restructuring work focused on collection development and customer relations. During that year, the factory auditing was on hold, but corrective action plans from previous audits were followed up at factory level by the individual production managers. Auditing was reassumed in 2010 and production managers continued to be responsible for following up corrective action plans.

During these two years, Filippa K did not have any full time staff dedicated to the CSR work, but divided the efforts within the production department. The follow up of corrective action plans at suppliers have therefore not been done at the same level as previously. Filippa K can report improvements at some suppliers, but have not followed up at all suppliers with outstanding issues. Some efforts have been put into addressing the root causes of issues such as excessive overtime by trying to minimise production peaks at supplier which is a positive sign.

After two years of a relatively low level of activities, Filippa K now needs to catch up on the work with implementing the management system requirements of FWF. All corrective action plans need to be systematically followed up on and auditing needs to be reassumed to a level where the 90% threshold is being met. This will require more dedicated staff time, more audits and the development of an information management system where improvements can be kept track of. The company's decision to recruit a CSR manager in 2011 will be of great help in this process.

## Positive findings

### **Conclusions**

1. Filippa K has showed ability to discuss and address the root causes of production problems. For example, in factories where excessive overtime has been found, Filippa K has tried to spread production over the year to ease pressure on the factory.
2. Filippa K has actively engaged with other FWF affiliated companies to share audit results, cooperate on follow up of audits and share audit costs. This has been done at three factories.



## 1. Sourcing

### *Conclusions*

1. Filippa K has developed a new sourcing strategy that will have an impact on code implementation. The strategy involves placing the core products at long term strategic suppliers that perform well in quality as well as CSR. The aim is that 80% of the volume should be sourced from these strategic suppliers. Since the core products have a more predictable sales, Filippa K will try to produce these more evenly over the year to give suppliers a more even production pressure.
2. Filippa K aims at having long term cooperation with their suppliers. This can be verified in the supplier register that shows that a large part of the production is done at production sites where Filippa K has a long relationship (at least 50% of the production is with production where one has worked for over five years).
3. Countries sourced from have not undergone any big changes since Filippa K joined FWF. During 2010, 47% was sourced in countries defined as low risk by FWF, and 53% sourced in high risk countries.
4. Working conditions and the willingness of suppliers to cooperate on improvements are discussed with new suppliers and there is a continuous dialogue regarding these issues. However, there are no formal criteria regarding code compliance for new suppliers except for signing the code.
5. Suppliers are evaluated before the start of every season. Code compliance can be part of these evaluations when a supplier faces concerning compliance issues. However, there is no formalised way of weighting in social compliance for every supplier.
6. The merchandising department and head of design is responsible for pricing. Buyers then works with blended margins for product groups to reach the target margin for the collection. When placing orders and discussing prices and lead times, Filippa K says that they listen to the suppliers, something they think has showed itself in that the company have not lost any suppliers during the crises. When establishing prices the wage component of the price is not specifically discussed.
7. FWF has during factory audits found cases of excessive overtime and payments below legal levels for over time. Filippa K is trying to relieve the pressure of some of the suppliers that have been found to have excessive over time by decreasing production at peak season at these suppliers. The company also tries to share and update forecasts with suppliers to facilitate their planning and there is awareness within Filippa K that factors such as production planning and pricing play a role in the implementation of the Code of Labour Practices.

**Recommendations**

1. A written sourcing policy / strategy that take code implementation into account can give buyers a clearer incentive and mandate to take social aspects into account.
1. Filippa K should make sure that there is a clear and transparent way that CSR performance is taken into consideration when choosing the strategic suppliers.
4. It is recommended that audit reports done by other buyers are collected and evaluated from new suppliers. This can give a better understanding of compliance issues at the supplier and gives an indication of how transparent the supplier is.
5. It is recommended that code compliance is weighted in during supplier evaluation for all suppliers where a corrective action plan has been followed up. Suppliers that have made efforts to address outstanding points in corrective action plans, or have a high level of compliance, should be able to see that their efforts in this area are appreciated and rewarded.
7. FWF recommends that Filippa K assess to what extent its effort to even out production pressure has had effects on working times at their suppliers. This should preferably be done in cooperation with the factories. Such an evaluation should also aim to establish what internal factors of the supplier might influence the ability to keep working hours within limits.

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

1. In total 87% of Filippa K's supplier base is covered in their monitoring system. 40% of the supplier base has been audited according to the supplier register submitted to FWF. All factory audits except one has been done using FWF audit teams. A further 47% is produced in low risk countries where Filippa K is following up working condition according to FWF's low risk policy.
2. At the start of their FWF affiliation, Filippa K developed a system by which corrective actions from factory audits done are divided into four categories depending on difficulty in solving and costs associated with solving the problems. This system has not been used during 2010.
3. Production managers have during 2010 been responsible to follow up the corrective action plans from the audits at factory visits and through correspondence with suppliers and through agents. However, due to staff changes and high work pressure on production managers, this has not been actively done at all factories where there are outstanding points in the corrective action plans.
4. Filippa K cooperated with other two other FWF affiliated companies in the follow up of a factory audit at a Turkish supplier. Filippa K shared the audit report and the status of the corrective action plan with the other affiliates to facilitate cooperation regarding improvements. Filippa K also shared another audit report and shared the cost of a third factory audit with another FWF affiliate.

**Requirements**

1. Filippa K has been affiliated to FWF for three years. At least 90% of the supplier base should have been audited, as well as any supplier producing more than 2% of the total value of production. Filippa K needs to make sure that this threshold is met during 2011.
- 2/3. Follow up should be done in a systematic manner to ensure that all corrective action plans are properly followed up on. To make sure that re-occurring non-compliances are dealt with appropriately, one person at Filippa K should be designated to have the overview of non-compliances at different factories.
3. Although FWF only requires that a full audit is done every third year, the corrective action plan from the audit must be followed up at supplier level every year. The affiliate should be able to show demonstrate that progress is being made at each supplier where there are outstanding points in the corrective action plan.

**Recommendations**

1. Factory audits that are actively followed up are valid for three years time within the FWF system. As many audits were done during Filippa K's first year of affiliation, it is recommended that the company already now start re-auditing these factories in order to reach the required threshold during 2012.

### 3. Complaints procedure

**Conclusions**

1. During 2010 the individual production managers responsible for the different suppliers have been responsible for following up complaints received.
2. Filippa K received a complaint from a worker at one of their Chinese suppliers via FWF in April 2009. The investigation of this complaint showed that the management of the supplier falsified pay slips and payroll records to mislead clients doing social audits. It was also found that the factory made use of excessive overtime and that workers were not properly paid for overtime hours.

After receiving the complaints report, Filippa K repeatedly tried to have a dialogue with the supplier to reach an agreement on how improvements could be achieved. As the supplier was unwilling to discuss the outcomes, Filippa K decided together with FWF to find a local labour expert that could facilitate the dialogue. In April 2010, FWF's local resource person met with the management and had a constructive dialogue resulting in a report containing action points for improvements for Filippa K to follow up.

After this, Filippa K has through their agent in China followed up with the factory several times. During autumn 2010 the factory reported that they would not be able to make the improvements in the wage system due to increased cost. After this, Filippa K has not been able to move the situation forward at the supplier.



**Requirements**

2. Although the factory has indicate that further improvements are not possible, Filippa K should inquire under what condition further improvements would be possible. If there conditions are not possible to reach by Filippa K and the factory alone, other buyers should be contacted to investigate possibility of cooperation. FWF can try to help to facilitate this cooperation with other buyers if necessary. A time plan should be made for by what time the first steps in the improvement process should be made. This plan should also indicate how long the factory has to respond to Filippa K's request to find out under what conditions improvements can be made.

**4. Improvement of labour conditions**

**Conclusions**

1. By January 2011, ten factory audits had been carried out at nine different production locations between. Nine of these audits were done using FWF audit teams. During 2010, three factory audits were carried out by FWF audit teams. Based on the results of the audits carried out in 2010, FWF has drawn up an overview of labour conditions in factories based on audits conducted by FWF audit teams since the last management system audit. This overview is annexed to this report.

2. In China three factories were audited in 2010. One in the April, this audit was initiated by another FWF affiliate, one in the beginning of October initiated by Filippa K and one at the end of October on behalf of FWF. At one of these factories the FWF information sheet for workers with contacts to the local complaints handler was not posted. All three factories received remarks for excessive working hours. Further remarks found at all three factories concerned fire safety, lack of ergonomic programs, not all workers being covered by correct insurances and workers not being paid the legally required amount for overtime. At one of the audited factories Filippa K has started a discussion on how to help the factory spread out production more evenly and thereby take some pressure off during peak season.

3. In Turkey one factory was audited by a FWF team on behalf of Filippa K in 2008. The main finding from this audit is outlined in the previous management system audit. During 2010 Filippa K started cooperating with two other buyers who are also FWF affiliated on the follow up of the corrective action plan. At the time of the management system audit there had been no reporting back on the status of the corrective action plan by the other companies.

4. In Romania one factory was audited by a FWF team on behalf of Filippa K in 2008. The main finding from this audit is outlined in the previous management system audit. In 2010 there were no reported improvements from this supplier.

**Requirements**

2. FWF information sheet for workers with contacts to the local complaints handler must be posted at all suppliers.

2 - 4. Filippa K should continuously follow up outstanding points on corrective action



plans and be able to report on level of progress at all audited factories.

### ***Recommendations***

2. The establishment of an independent workers committee is an area for improvement in the majority of the factories that have been audited in China. FWF therefore recommends that Filippa K consider facilitating factory trainings that aim at improving social dialogue on factory level. FWF can recommend organisations that could carry out factory trainings.

2-4. If Filippa K has not been able to follow up corrective action plans at factory level at all audited factories. FWF can ask their local auditors to visit a factory that has been audited by FWF previously to see what improvements have been realised if the member company has difficulties doing this. This is not a full audit, but a service for those member companies who have difficulties visiting production sites to follow up corrective actions.

## **5. Training and capacity building**

### ***Conclusions***

1. During 2010 training for staff on issues related to the implementation of the FWF code of labour practices has been done as a part of the introduction program for new employees. Staff from Filippa K also participated in the FWF meeting for Swedish affiliates in 2010.

2. Agents are informed about FWF affiliation and the implementation of the Code of Labour Practices through the responsible production managers. Some agents are actively helping Filippa K in the implementation of the Code of Labour Practices.

3. Manufacturers are informed about FWF affiliation and the implementation of the Code of Labour Practices by the production managers and through filling out the questionnaire.

4. Employees of suppliers are informed through the posting of the information sheet for workers in the factories. The information sheet for workers has not been posted at all production locations.

### ***Recommendations***

1. It is recommended that Filippa K use several different channels, such as informing during internal meetings, newsletters, etc., to keep staff not directly involved in the work related to FWF updated.

4. FWF recommends that Filippa K implements a system whereby all staff and agents visiting factories are responsible to check that the code of labour practices is posted. Suppliers can also be asked to email photos of the posted information sheet. To keep track of where the company has confirmed that

## 6. Information management

### *Conclusions*

1. The person responsible for the contact with FWF is in charge of keeping the supplier register updated. A checklist has been developed to make sure that correct information is gathered regarding all suppliers.
2. The supplier register submitted to FWF did not contain correct addresses to all suppliers, for some the address of the main office rather than the production site was included.
3. Information regarding the implementation of the corrective action plans is kept on the computer or in notes of the individual production managers responsible.

### *Requirements*

2. The supplier register submitted must contain the correct contact details to all production sites.

### *Recommendations*

3. FWF recommends that Filippa K implements a system to make sure information on how the suppliers are progressing with the work on the corrective action plan is continuously updated and easily available for all relevant staff.

## 7. Transparency

### *Conclusions*

1. Filippa K informs the public about its FWF affiliation on its homepage.
2. The annual social report from Filippa K of 2010 has not yet been received by FWF.

### *Requirements*

2. The annual social report for 2010 should be submitted to FWF and posted on the homepage of Filippa K.

## 8. Management system evaluation and improvement

### *Conclusions*

1. During 2010, Filippa K evaluated how to continue working with CSR-issues including FWF. This has involved the management team at Filippa K. Apart from this bigger



evaluation of future strategy, there are continuous discussion in the production team on compliance issues relevant to the different suppliers.

***Recommendations***

1. It is recommended that Filippa K clearly indicate in their workplan to FWF improvements in the effectiveness of the work with implementing the Code of Labour practices have been made in for lessons learned not to be lost.

## 9. Basic requirements of FWF membership

***Conclusions***

1. The work plan for 2011 has been received.
2. Membership fee for the previous year has been paid.

## 10. Recommendations to FWF

***Recommendations***

1. FWF should develop models of work that affiliated members can use to better be able to implement the Code of Labour Practices. This can include facilitating the sharing of tools between member companies.
2. FWF should provide more support for member companies that receive complaints from workers. This should include proactive recommendations on how to respond and move forward.
3. FWF should make sure that requirements are at the same level for all member companies.

## Annex. Improvement of labour conditions: summary of most important findings

<b>Factory audit at Chinese supplier of Filippa K initiated by FWF and conducted by FWF local audit team.</b>	
<b>Sourcing practices (price, lead-time, quality requirements)</b>	No findings
<b>Monitoring system of FWF member company</b>	According to the factory, Filippa K has not provided the Code of Labour Practices to the factory or checked if it is posted during visits.
<b>Management system factory to improve labour standards</b>	According to the factory, they have not reported progress to Filippa K and workers don't know who is responsible at the factory level for working conditions.
<b>Communication, consultation and grievance procedure</b>	Workers are not informed about the FWF Code of Labour Practices and has a low knowledge about the Chinese labour law. There is no functioning complaints system.
<b>Employment is freely chosen</b>	No findings
<b>No discrimination in employment</b>	No findings
<b>No exploitation of child labour</b>	No findings
<b>Freedom of Association and the Right to Collective Bargaining</b>	There is no independent union or workers committee which is run by workers without management involvement. Further, workers are not aware of their rights to organize.
<b>Payment of a Living Wage</b>	Payments for a regular working week comply with legislation, but are below living wage estimated by local stakeholders consulted by FWF. Production workers paid by piece rate does not receive the correct overtime compensation. Piece-rate production workers are not paid for statutory holidays.
<b>No excessive working hours</b>	The factory does not maintain complete time records. Monthly overtime hours exceed local limits and workers do not receive at least one day off in a 7-day period.
<b>Occupational health and safety</b>	Remarks on fire and electrical safety as well as some safety guards missing on machinery.
<b>Legally binding employment relationship</b>	The majority of the workers are not provided with pension, injury, medical and maternity insurance. No worker is provided with unemployment insurance.

<b>Source: Factory audit at Chinese supplier of Filippa K initiated by Filippa K and conducted by the local FWF audit team.</b>	
<b>Sourcing practices (price, lead-time, quality requirements)</b>	No findings.
<b>Monitoring system of FWF member company</b>	No findings.
<b>Management system factory to improve labour standards</b>	The workers don't know who is responsible at the factory level for working conditions.
<b>Communication, consultation and grievance procedure</b>	Workers have a low knowledge about the Chinese labour law.
<b>Employment is freely chosen</b>	No findings.
<b>No discrimination in employment</b>	No findings.
<b>No exploitation of child labour</b>	No findings.
<b>Freedom of Association and the Right to Collective Bargaining</b>	There is no independent union or workers committee which is run by workers without management involvement.
<b>Payment of a Living Wage</b>	Workers are not sufficiently compensated for overtime.
<b>No excessive working hours</b>	Monthly overtime hours exceed local limits and workers do not receive at least one day off in a 7-day period.
<b>Occupational health and safety</b>	The factory has no ergonomic program and received some remarks on fire safety.
<b>Legally binding employment relationship</b>	All workers are not provided with the all legally required insurances.

<b>Source: Factory audit at Chinese supplier of Filippa K initiated by FWF and conducted by the FWF local audit team.</b>	
<b>Sourcing practices (price, lead-time, quality requirements)</b>	No findings.
<b>Monitoring system of FWF member company</b>	According to the factory, Filippa K and the other FWF affiliate have not provided the Code of Labour Practices to the factory or checked if it is posted during visits.
<b>Management system factory to improve labour standards</b>	According to the factory, they have not reported progress to Filippa K or the other FWF affiliate. The workers don't know who is responsible at the factory level for working conditions.
<b>Communication, consultation and grievance procedure</b>	Workers are not informed about the FWF Code of Labour Practices and has a low knowledge about the Chinese labour law. There is no functioning complaints system.
<b>Employment is freely chosen</b>	No findings.
<b>No discrimination in employment</b>	No findings.
<b>No exploitation of child labour</b>	No findings.
<b>Freedom of Association and the Right to Collective Bargaining</b>	There is no independent union or workers committee which is run by workers without management involvement. Further, workers are not aware of their rights to organize.
<b>Payment of a Living Wage</b>	Production workers paid by piece rate are not sufficiently compensated for overtime. Workers are not provided with the correct paid annual leave. All piece-rate production workers are not paid for statutory holidays. The factory uses monetary fines as disciplinary practices.
<b>No excessive working hours</b>	The factory does not maintain sufficient time records. Monthly overtime hours exceed local limits and workers do not receive at least one day off in a 7-day period.
<b>Occupational health and safety</b>	Several remarks on fire safety and a lack of an ergonomic program
<b>Legally binding employment relationship</b>	A part of the workers are not provided with pension, medical, accident, unemployment and maternity insurances. Employees have not received a copy of the employment contract.