



Fair Wear Foundation

## Management system audit report

Heigo

1 July, 2011

### ***FWF member since:***

2005

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

Interview with Dennis van Aalten (Head internal affairs/FWF contact person/communication)

Interview with Johan Peters (Sourcing)

Annual report and work plan

Archived documents

Database FWF

Audit conducted by:

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Fair Wear Foundation

Index

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



## Introduction

In July, 2011, Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Heigo. The MSA is a tool for FWF to verify that Heigo 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 2011. FWF tailored the MSA to the specifics of the management system of Heigo in order to assess the key issues of interest. During the MSA, employees of Heigo 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 Heigo 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 Heigo that have been identified as key areas of interest for 2011. 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 Heigo to include information from the MSA report in its social report.



## Executive summary

Heigo is in process of implementing FWFs management system requirements. Heigo owns a factory in Bulgaria which is also the main supplier. Furthermore it has production in some low risk countries (Netherlands, Hungary, Belgium and Portugal) and in China, Pakistan and Turkey. The factory in Bulgaria of which Heigo sources more than 50% of their production, has been audited several times by local FWF audit teams.

Representatives of Heigo visit the factory frequently and discuss the follow up of the corrective action plan's (CAPs). Improvements have been realised on the transparency of wage calculation and on issues regarding health and safety at work. The suppliers in other countries have been required to send back the FWF questionnaire. No further monitoring activities have been developed however. Heigo has been a FWF member since 2005. 83% of their supply base of own production has been either audited or is located in low risk countries. Heigo needs to take action to get insight in the labour conditions in the factories in Pakistan, China and Turkey.

## Positive findings

### **Conclusions**

1. Heigo owns the factory in Bulgaria of which it sources more than 50% of its production. Representatives visit the factory frequently and there is a close cooperation regarding social compliance.

## 1. Sourcing

### **Conclusions**

1. Heigo does not have a separate sourcing policy or routine on paper. Labour conditions are taken into consideration when selecting new suppliers. In their suppliers overview, they have included several CSR questions. Heigo uses also ISO quality systems.
2. 65% of the supply base is sourced in factories owned by Heigo. 18% is sourced in low risk countries.
3. Heigo has a limited number of suppliers. The company has had a business relation for more than 5 years with 42% of its suppliers, which accounted for 78 % of its total purchasing volume.
4. Heigo collects the FWF questionnaires from new suppliers.
5. Lead time that Heigo uses is standard 6-8 weeks. Heigo maintains a forecasting system per trimester. Prognoses are made for the core collection, next to that they produce orders for their longer term clients and do contract orders. The own supplier in Bulgaria produces for stock during low periods. No excessive overtime was found during the FWF audit at their main supplier.
7. When establishing prices in their own factory in Bulgaria, they take into account the wage levels in the country and minutes needed for production.



**Recommendations**

4. FWF recommends asking potential new suppliers to share also existing audit reports as a means to assess the level of working conditions in these factories.

## 2. Coherent system for monitoring and remediation

**Conclusions**

1. 83% of Heigo's total purchasing volume is accounted for by audited factories and factories in low risk countries. The main supplier in Bulgaria has been audited several times on behalf of Heigo by making use of local FWF audit teams. Together with the volume produced in low risk countries such as Portugal, Hungary, the Netherlands and Belgium this accounts for 83%. This is less than the required 90%.
2. Staff of Heigo frequently visits the supplier in Bulgaria. As a part of these visits, follow-up of corrective action plans is discussed. Heigo has regularly sent updates of the CAP to FWF.
3. The other suppliers are not (frequently) visited, nor are they asked to submit existing audit reports or audited on behalf of Heigo.
4. The FWF requirements towards external suppliers were not clear to Heigo. At this moment it is not clear how many of their external suppliers commit to the FWF Code of Labour Practices.

**Requirements**

1. Heigo should develop activities towards assessing the labour conditions in factories that produce for Heigo in all high risk countries and include them in a monitoring system.
2. Heigo has to ensure that suppliers of external production endorse either the FWF Code of Labour Practices or have another acceptable system in place for monitoring their supply chain.

**Recommendations**

1-3. FWF recommends that the responsible for sourcing asks the factories to share existing audit reports. On the FWF website an audit quality checklist can be downloaded to assess the quality of the reports. After the evaluation of the reports a corrective action plan should be discussed with the factory and actively followed up.

## 3. Complaints procedure

**Conclusions**

1. Within Heigo staff is sufficiently aware of the complaints mechanism. The contact



person for FWF is the designated person to handle complaints.

2. It is not clear whether the FWF Code of Labour Practices has been send and posted at the suppliers.
3. To date FWF has received no complaints from workers employed in factories producing for Heigo.

**Requirements**

2. Heigo has to ensure all their suppliers receive the Code of Labour Practices, to be posted in a visible place for workers at the factory, including the telephone number of the local complaints handler.

#### 4. Labour conditions and improvements

**Conclusions**

*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 the factory in Bulgaria. The overview is annexed to this report. This overview includes results of audits by FWF local audit teams. Results of audits by other initiatives are not summarized.*

1. The CAPs were followed up and several improvement points were realized for the location in Bulgaria
2. In the factory in Bulgaria no non compliances were found for forced labour, discrimination and child labour. There is no union or workers committee active in the factory. On Occupational Safety and Health some issues found during the audit in 2006 have been improved. There is now an OSH committee in place, protective equipment has been distributed and a rest room is now in place for pregnant women. Further improvements are needed on informing the workers on the OSH committee and the role of its worker representatives. Some new issues were found during the latest audit, for example on the firefighting equipment and the lack of trained first aid persons. On Legally binding employment relationship no non compliances were found. During the audit it was found that some workers receive a supplement on their wage, to achieve the legal minimum wage, for which they have to make extra pieces the next month. In fact this means that they create a debt. In the follow up of the CAP Heigo facilitated new calculations for the piece rate targets. It is not yet clear how this impacts the number of workers not receiving the minimum wage without the supplement.



**Requirement**

2. Adapt the wage calculation system, to make sure every worker receives at least the legal minimum wage.

## 5. Training and capacity building

**Conclusions**

1. Staff of Heigo, including sales, is sufficiently aware of the FWF membership. Information on FWF is included in the introduction programme for new staff. They keep their staff periodically informed about developments related to membership and on developments in Bulgaria.

**Recommendations**

1. The training seminar for affiliates that FWF organises (next one on 8 and 9 September 2011 or March 2012) can provide extra tools and the possibility to exchange experiences with other affiliates to further strengthen the capacity for monitoring the supply chain.

## 6. Information management

**Conclusions**

1. The supplier register submitted to FWF did not include all the required data. Short after the MSA an updated version was handed in, including the external suppliers.  
2. Different staff members have easy access to information on the suppliers.

**Requirements**

1. The supplier register submitted to FWF should be in the correct format and contain updated information on all suppliers. The supplier register must contain all suppliers and sewing subcontractors. For each supplier must also be specified the information on previous audits carried out at production location and a brief status description of process to follow up on corrective action plans.

## 7. Transparency

**Conclusions**

1. Heigo informs the public on their website on their FWF membership. Till the moment



of the MSA the wording was not completely correct. Changes have been written down during the audit. FWF has verified that these have been implemented.

2. The annual report on 2010 has been received by FWF. The report on 2010 did not include information on all the production countries and monitoring activities and their outcomes. The report has not been published yet on the company website.

3. Heigo showed interest for using information on their FWF membership on hangtags and using FWF brochures for clients.

4. Information on FWF is included in company presentations of Heigo and in the script which is used by sales staff for presentations

### ***Requirements***

2. Information on the production countries, monitoring activities and their outcomes should be included in the annual report. The report should be placed on the company website.

## **8. Management system evaluation and improvement**

### ***Conclusions***

1. Evaluation of their FWF membership is a continuous process, often discussed after visits to Bulgaria. Feedback from the supplier in Bulgaria is collected for this purpose.

### ***Recommendations***

1. FWF recommends to evaluate at least once a year to what extent the chosen approach to improve working conditions is effective. The evaluation would need to assess which improvements were (not) successfully implanted in factories, if communication with factories on this issue goes smooth and whether the chosen approach is cost efficient.

## **9. Basic requirements of FWF membership**

### ***Conclusions***

1. Heigo paid their membership fee for 2010

2. A work plan for 2010 has not been received from Heigo. For 2011 Heigo did send in a work plan.





<i>Requirements</i>
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| <ol style="list-style-type: none"><li>1. To provide information on its monitoring system and activities affiliates are required to send in yearly a work plan.</li></ol> |
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## 10. Recommendations to FWF

<i>Recommendations</i>
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|---|
| <ol style="list-style-type: none"><li>1. Heigo recommends FWF to act more strongly on abuse of the FWF logo by companies who are not a member.</li><li>2. Heigo would stimulate informing the public more about the differences between FWF ambassadors and FWF affiliates and/or having different categories of members.</li></ol> |
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<b>Improvement of labour conditions: summary of most important findings</b>	<b>Factory: Bulgaria</b>	
	<b>Source: audit carried out on 2 and 3 June, 2006</b>	<b>Source: audit carried out December 2010</b>
<b>Workers interviews</b>	9 workers were interviewed during working hours on the workfloor; 10 workers were interviewed during 30-40 minutes meetings separately from others.	7 workers were interviewed prior to the audit, 11 were interviewed during on site visit, 20 responded short questionnaire
<b>Documentation</b>	Documents that were not maintained include overtime register, grievances files, sickleave register, contracts with subcontractors	no official overtime register, sickleave register now available
<b>Buyer-supplier relationship (duration)</b>	5 years	
<b>Sourcing practices (price, leadtime, quality requirements)</b>	90% of production is for Heigo	90% of production for Heigo
<b>Monitoring system of FWF member company</b>	not part of this audit	
<b>Management system factory to improve labour standards</b>	not part of this audit	ISO system in place. No specific social compliance monitoring in place
<b>Communication, consultation and grievance procedure</b>	not part of this audit	Workers not aware who is worker representative of OSH committee . No adequate grievance procedure.
<b>Employment is freely chosen</b>	no non-compliance found	no non-compliance found
<b>No discrimination in employment</b>	no non-compliance found	no non-compliance found
<b>No exploitation of child labour</b>	no non-compliance found	no non-compliance found
<b>Freedom of Association and the Right to Collective Bargaining</b>	no non-compliance found	no non-compliance found
<b>Payment of a Living Wage</b>	There are occasions of workers not being paid legal minimum wage while working full time; supplement documentation of salary increases up to required minimum wage are lacking; bonus system is not properly documented;	Some workers not making legal minimum wage get a suppletion, but create a debt for next month. Workers think wage system is hard to understand. Bonus system is not properly documented.



<b>No excessive working hours</b>	overtime is not paid at premium rate as law requires	
<b>Occupational health and safety</b>	no written and posted OHS policy available; no OHS committee present; safety devices on equipment is lacking or has been removed; training on safety has not been conducted as required by law; there are no safety signs, no fire alarms and emergency exit lights; first aid kits are not freely available and do not contain all necessary materials	OHS was in place, needle guards and metal gloves had been provided, Fire extinguishers expired, no trained person for first aid
<b>Legally binding employment relationship</b>	no non-compliance found	no non-compliance found
<b>Special remarks</b>	none	none