



Fair Wear Foundation

***Management system audit report***

***Kwintet Far East***

***2 and 4 February 2010***

***FWF member since: December 2008***

***Sources of information***

A: Database FWF

B: Annual report and work plan

C: Archived documents

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E: Lennart Eriksson, (Strategic Sourcing Manager)

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Fair Wear Foundation

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## 1. Introduction

In February 2010 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Kwintet Far East. The MSA is a tool for FWF to verify that Kwintet Far East 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 2009. FWF tailored the MSA to the specifics of the management system of Kwintet Far East in order to assess the key issues of interest. During the MSA, employees of Kwintet Far East 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, recommendations and an annex which includes 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 Kwintet Far East 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 Kwintet Far East that have been identified as key areas of interest for year. 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 invites Kwintet Far East to comment on the content of the draft report within ten working days after receiving the draft report. Subsequently the report is made definitive.

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



## 2. Executive summary

Since 2007 Kwintet Far East has made efforts to reduce its number of suppliers. Kwintet Far East pursues to work with approximately 100 suppliers with which it maintains long term relations. As part of this process the company developed a preferred supplier system which distinguishes between strategic, tactical and complementary suppliers.

As part of its sourcing approach Kwintet Far East asks its suppliers to reserve production capacity on the basis of standard minutes. As a result suppliers can to a large extent anticipate on orders of Kwintet Far East, which helps factories to avoid excessive overtime.

In 2009 Kwintet Far East defined a robust monitoring and remediation program. Kwintet Far East has developed in-house audit capacity. In combination to this (semi-unannounced) audits are carried out by an external audit company. The company has developed a clear set of indicators for compliance with labour standards, on the basis of which suppliers are rated in the internal database of Kwintet Far East. The rating of suppliers has implications for the timeframe within which corrective action needs to be taken by the factory. In 2009 33 factories were audited by Kwintet Far East, which according to the company represent approximately 40% of its purchasing volume.

Kwintet Far East has a designated person to handle complaints and acts in proactive way in handling complaints. In 2009 Kwintet Far East received one complaint through its own complaints mechanism, following which the company has made attempts to actively engage with other foreign buyers sourcing from the same factory to improve the situation in the factory. As a point for improvement Kwintet Far East should ensure workers are systematically informed about the complaints procedure and the implementation of the Code of Labour Practices.

## 3. Positive findings

### **Conclusions**

1. The Kwintet Group has the ambition to implement the FWF Code of Labour Practices for the whole group.
2. Kwintet Far East asks its suppliers to reserve production capacity on the basis of standard minutes. As a result suppliers can to a large extent anticipate on orders of Kwintet Far East, which helps factories to avoid excessive overtime.
3. Kwintet Far East has developed a clear set of indicators for compliance with labour standards, on the basis of which suppliers are rated in the internal database of Kwintet Far East. The rating of suppliers has implications for the timeframe within which corrective action needs to be taken by the factory.
4. Kwintet Far East made efforts to cooperate with another company sourcing in the same factory when handling a complaint.
5. Kwintet Far East organized a meeting for their Asian suppliers in Shanghai. CSR was an important element during this meeting.

## 4. Sourcing

### **Conclusions**

1. As part of a consolidation process since 2007 Kwintet Far East has made efforts to reduce its number of suppliers. Kwintet Far East pursues to work with a approximately 100 suppliers with which it maintains long term relations. As part of this process the company developed a preferred supplier system which distinguishes between strategic, tactical and complementary suppliers. Orders of Kwintet Far East typically absorb 20-50% of the production capacity if suppliers.
2. Kwintet Far East has developed a standardised process for supplier selection in which corporate social responsibility is a formal element. Companies are expected to follow a specified process with time-bound milestones. As part of this process suppliers must sign the Kwintet Code/ FWF Code of Labour Practices and complete a questionnaire with reference to the Kwintet Code. On the basis of information from activities of Kwintet Far East to monitor working conditions in factories, suppliers are rated on their level of compliance. This compliance rating directly affects the status of suppliers in the internal database of Kwintet Far East. The sourcing approach of Kwintet Far East is set up in such a way that buyers cannot place orders for new styles at Preferred suppliers with a red grade until corrective action has been taken to resolve the problem that led to the red grade.
3. Kwintet Far East analyses the production capacity on the basis of standard minutes calculation. On the basis of the amount of minutes needed for standard order size, Kwintet Far East asks its suppliers to reserve production capacity. As a result, suppliers can to a large extent anticipate on orders of Kwintet Far East, which helps factories to avoid excessive overtime. As a significant part of its products are catalogue based, most suppliers produce on the basis of standard lead times and production peaks beyond 20% of the normal volume of orders are seldom. There is awareness at top management level that good planning of production and lead time can contribute to reduce excessive overtime in factories. Nevertheless it has been found that excessive overtime does occur in factories producing for Kwintet Far East.
- 4.. Kwintet Far East explicitly refers to the standard Payment of a Living Wage in its Code and in various internal documents. At present the company expects suppliers to comply with payment of local minimum wages and encourages the payment of a living wage.

### **Recommendations**

1. FWF encourages Kwintet Far East to avoid terminating business relationships with factories which have made progress in the implementation of corrective action plans.
2. As the sourcing strategy of Kwintet Far East is geared towards rewarding suppliers who perform according to expectations, a framework for a system to reward performance could be further developed to stimulate further steps forward by suppliers. Possible means to reward well performing suppliers could be provided in by involving the supplier in the product development phase, or by providing technical assistance in further streamlining the production process.
3. As Kwintet Far East typically has considerable leverage at suppliers, FWF recommends that Kwintet Far East, in cooperation with factories where excessive



overtime is found, carry out a root cause analysis on the factors causing excessive overtime. It is recommended that a period be defined which is representative for an entire business year for the factory to carry out this analysis, for example a period of 3-6 months. In context of such an analysis all incidents of overtime, their origin and severity are to be registered and analysed. After this analysis, a practical step-by-step plan can be drafted by the factory to bring the amount of working hours down to legally allowed levels. The plan should explain how and to what extent the factory can control overtime hours, and to what extent Kwintet Far East (and possibly its other clients), could help remediate this problem, for example by providing management support in production planning.

4. FWF is in the process of substantiating its approach on payment of living wages. After further guidance has been developed for affiliates to move forward on this issue FWF will formulate additional recommendations with regard to this labour standard.

## 5. Coherent system for monitoring and remediation

### **Conclusions**

1. Kwintet Far East has defined a robust approach to monitor working conditions in factories. In case of new suppliers, quality control staff carries out a basic visual social compliance inspection on the basis of a pre-assessment questionnaire. Existing and new Complementary suppliers are expected to conclude a Sedex self assessment, after which an audit is carried out. Preferred suppliers are enrolled in an audit booking schedule immediately. The Regional Compliance Manager of Kwintet Far East monitors the implementation of corrective action plans. Kwintet Far East has developed in-house audit capacity. In combination to this (semi-unannounced) audits are carried out by an external audit company. Kwintet Far East has developed a clear set of indicators for compliance with labour standards, on the basis of which suppliers are rated in the internal database of Kwintet Far East. The rating of suppliers has implications for the timeframe within which corrective action needs to be taken by the factory.

2. In 2009 33 factories were audited by Kwintet Far East, which according to the company represent approximately 40% of its purchasing volume. However, as suppliers are often trading companies that work with several factories FWF cannot conclude that Kwintet Far East requires the threshold of 40%.

### **Requirements**

2. Kwintet Far East should assure that it meets the required audit threshold in relation to factories.

### **Recommendations**

1. Kwintet Far East is recommended to periodically make use of FWF audit teams as part of its monitoring activities, as a means to benchmark against other monitoring activities. In addition, Kwintet Far East is encouraged to let new internal monitoring staff

participate in the FWF auditor training which is organised in Hong Kong in May 2010.

2. As some factories from the supplier base of Kwintet Far East also produce for other companies and have been audited before, FWF recommends that Kwintet Far East structurally check if factories have been audited on behalf of other clients and to ask them to share audit reports with Kwintet Far East. On the basis of a follow-up framework for existing audit reports which is to be issued by FWF in 2010, Kwintet Far East will be able to assess the quality of existing audit reports. If audit reports are of sufficient quality Kwintet Far East would be able to follow up on existing audit reports, possibly in cooperation with other clients of the factory.

## 6. Complaints procedure

### **Conclusions**

1. Kwintet Far East has a designated person to handle complaints.
2. During the verification audits the FWF Code of Labour Practices with information of the complaints handler was not posted in the factories.
3. Kwintet Far East acts in proactive way in handling complaints. Kwintet Far East received one complaint through its own complaints mechanism related to child labour in a factory in Vietnam. In this specific case Kwintet Far East made efforts to cooperate actively with another company to resolve this complaint. Following the complaint Kwintet Far East executed an audit which demonstrated that child labour did not occur. Several other issues were found related to payment of wages, social insurance and working hours. Remediation of these problems was included in the monitoring system of Kwintet Far East. During this process Kwintet Far East actively engaged with another company which was sourcing from the same factory to improve the situation in the factory.

### **Requirements**

2. Kwintet Far East should ensure workers are systematically informed about the complaints procedure and the implementation of the Code of Labour Practices.

## 7. Improvement of labour conditions

### **Conclusions**

1. In China in the audited factory management and workers were not aware of the Code of Labour Practices and it was not posted on the wall. No independent workers representation was functioning in the factory. In the factory excessive overtime was found. Several measures were recommended to improve health and safety in the factory. A significant share of workers was not properly covered by the social insurance system.
2. In Bangladesh the audit showed a serious issue for which the supplier got a red grading in the supplier rating system of Kwintet Far East. This concerned the mandatory pregnancy tests during recruitment. This practice was stopped immediately. Also a

banned chemical used as spot remover was abandoned immediately after the audit. In the area where the factory is located no presence of trade union is allowed. It is necessary to have an elected workers representation, which was not found in the factory. Overtime was also an issue for improvement. It was found that workers had to work during holidays, without being offered alternative leave.

3. The factory audited in India had also a red grading in the system of Kwintet Far East. The issue found was that not all workers receive minimum legal wage. As in other factories which were audited workers are not sufficiently aware of their rights and possibilities for organizing. Workers representation was not effective in the factory. In the factory several improvements are necessary on safety and health issues. The audit showed that the contract system was not clear to workers as a variety of contracts was being used (casual workers, piece rate workers, daily wagers). Workers did not receive clear information on their probation period.

*Based on results of audits carried out by FWF teams and complaints of workers, FWF has drawn up an overview of labour conditions in factories. The overview is annexed to this report.*

### **Recommendations**

1/2. In China and Bangladesh the establishment of an independent workers committee is an area for improvement in the majority of the factories that have been audited. FWF therefore recommends that Kwintet Far East considers facilitating factory trainings that aim at improving social dialogue on factory level. FWF can recommend organisations that could carry out factory trainings. With these trainings awareness can be stimulated on the Code of Labour Practices. Special worker trainings can be a good instrument to not only improve knowledge of workers of their rights but also stimulate organisation of some kind of worker representation.

3. In this context payment of legal minimum wages should be discussed. Kwintet Far East could consider cooperating with other companies sourcing in the same factories to have more leverage in following up CAPs regarding payment of wages. In a broader setting cooperation could take place at various levels, but could include for example sharing of audit reports, dividing tasks for joint follow up of CAPs, cooperation in sharing information or providing training for the management of the factory and for the workers. FWF is willing to facilitate in such processes and to share experiences of other companies.

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

### **Conclusions**

1. Kwintet Far East was active to inform and train involved persons on their CSR policy and FWF membership. A seminar was organized for their Asian suppliers in Shanghai. CSR was an element discussed during this meeting.

2. For workers at the factory level no activities were conducted to raise awareness among workers on the Code of Labour Practices and the complaints mechanism.

3. In order to inform its own staff Kwintet Far East organized a CSR seminar for quality





control staff in Ningbo where FWF membership has been explained. Furthermore the intranet is used by Kwintet Far East to inform other staff on the compliance program and FWF membership.

### ***Recommendations***

2. Kwintet Far East could consider giving factory trainings (see recommendation no.1 under the heading 7 labour improvements.)
3. Other activities can be developed to stimulate capacity building of staff of Kwintet Far East. There are several ways of doing this: information can be shared more broadly, FWF can provide a general workshop, FWF can also provide and facilitate an interactive game in which dilemmas and possibilities for affiliates are made clear.

## **9. Information management**

### ***Conclusions***

1. Kwintet Far East has a systematic procedure of collecting, registering and sharing information in a monitoring information system.
2. Kwintet Far East developed a system with colors to categorize the different findings during an audit. Kwintet Far East maintains an overview and grading system for suppliers in which the red flagged findings are mentioned explicitly.
3. Kwintet Far East handed in a supplier register containing data on all factories. The register does not include information on the percentage of production commissioned by Kwintet Far East in factories.
4. Management executives can either block or unblock a supplier for the purchasing department. The database system of the purchasing department itself does not correspond directly with the compliance database.

### ***Requirements***

3. The supplier register must specify the percentage of production commissioned by Kwintet Far East in factories.

### ***Recommendations***

4. Kwintet Far East could improve the exchange of information between the purchasing and CSR departments by for example facilitating access to the information available in the monitoring system, training the staff of the purchasing department and/or aligning the information in Navision with the purchasing database in order to integrate it more easily in purchasing policies.

## 10. Transparency

### **Conclusions**

1. Kwintet Far East has sent the draft social report on the previous year.
2. Information on the membership of FWF is published on the website of Kwintet Far East in correct wording.

## 11. Management system evaluation and improvement

### **Conclusions**

1. There is an ongoing evaluation process between the responsible for CSR issues and the regional compliance manager and the sourcing director for Asia during quarterly visits and weekly contact.

### **Recommendations**

1. It is recommended to establish a designated moment once a year to evaluate FWF membership and plan the process of affiliation of other entities of the Kwintet Group.

## 12. Basic requirements of FWF membership

### **Conclusions**

1. Kwintet Far East handed in a work plan for 2009, the supplier register was shared and the membership fee has been paid.
2. Kwintet Far East meets the basic requirements of FWF membership.

## 13. Recommendations to FWF

### **Recommendations**

1. Kwintet Far East would like to know how other FWF member companies are doing. The company suggests arranging workshops for companies in the work wear sector.
2. Kwintet Far East would like an active dialogue around relevant aspects of CSR.
3. Kwintet Far East would like FWF to stimulate the affiliates and stakeholders to see how we overall improvements on payment of living wages can be achieved.