

Management system audit report

ODLO International AG
10 June, 2009

FWF member since: 18 September 2008

Sources of information

A: Database FWF

B: Annual report and work plan

C: Archived documents

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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	5
6. Complaints procedure	5
7. Improvement of labour conditions.....	6
8. Training and capacity building	6
9. Information management.....	6
10. Transparency	7
11. Management system evaluation and improvement.....	7
12. Basic requirements of FWF membership.....	7
13. Recommendations to FWF.....	7

1. Introduction

In June 2009, Fair Wear Foundation (FWF) conducted a management system audit (MSA) at ODLO International AG. The MSA is a tool for FWF to verify that ODLO International AG 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 of ODLO International AG. FWF tailored the MSA to the specifics of the management system of ODLO International AG in order to assess the key issues of interest. During the MSA, employees of ODLO International AG were interviewed and internal documents have been reviewed.

FWF developed this report based on findings collected during the MSA. The report contains conclusions, requirements, recommendations and an annex that 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 ODLO International AG 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 ODLO International AG that have been identified as key areas of interest for this 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 ODLO International AG 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. The annex with detailed findings will remain confidential. FWF encourages ODLO International AG to include information from the MSA report in its social report.

2. Executive summary

The management system audit carried out at ODLO International led to several positive findings. ODLO has integrated the implementation of the FWF Code of Labour Practices as one of its core company strategies. ODLO introduced a performance appraisal system for the staff in the sourcing department that takes into account the progress made on the implementation of the membership of FWF. ODLO decided to restrict the number of production sites. The sourcing department is in direct contact with their suppliers with whom ODLO has built long term trade-relations.

With regard to its sourcing policy ODLO is required to give a clear insight in the percentages of own production, suppliers and subcontractors. Immediately after receiving this report, ODLO gave FWF a better overview of their production sites. In addition, it is recommended that ODLO work on improving and formalising the assessment process of new suppliers.

A large percentage of ODLO's total production takes place in its own factories in Europe, that had at the time of this MSA not yet been audited.

During an audit at ODLO's supplier in Thailand (where ODLO sources less than 10% of its total production) it was found that improvements were needed related to discrimination, freedom of association, payment of a living wage and hours of work. In order to improve the already existing process of follow-up on improvement of labour conditions it is recommended that ODLO continues to develop a coherent monitoring process, identifying the persons involved and the responsibilities given to them.

3. Positive findings

Conclusions
1. ODLO has integrated the implementation of the FWF Code of Labour Practices as one of its core strategies.
2. ODLO is collaborating with other FWF member companies in improving labour conditions.
3. ODLO informed all staff about its membership in FWF in an early stage.
4. ODLO has a good insight in what improvements need to be made.

4. Sourcing

Conclusions
1. One of the criteria for evaluating new suppliers is the Code of Labour Practices. It is not clear which weight is given to the code in this evaluation.
2. ODLO is in direct contact with factories. 75% of the production takes place in factories owned by ODLO. It is unclear how ODLO calculates the volumes that are produced at ODLO Portugal and ODLO Romania respectively.
3. ODLO has chosen to have suppliers that can produce more than one type of product and wants producers to be spread out geographically. This to allow shifting production to other existing locations in case of problems with one supplier location.

Requirements

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| 2. ODLO has to give insight in the percentage of the production from ODLO Portugal and ODLO Romania to the total of ODLO International. |
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Recommendations

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| 3. ODLO is recommended to work on improving and formalising the assessment process of new suppliers. |
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5. Coherent system for monitoring and remediation

Conclusions

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| 1. ODLO has not yet decided how their own internal monitoring of suppliers should be done (who in the company will be involved and what can they check). |
| 2. For the factories owned by ODLO improvements in working conditions are reported directly to ODLO headquarters. |
| 3. All suppliers except two have filled in and returned the questionnaires. |
| 4. CSR/Sourcing department is responsible for defining CAPs and give follow up/monitoring on the implementation of CAPs. |

Recommendations

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| 1. ODLO is recommended to use experience gained from audits carried out in the remainder of 2009 to further define its system for monitoring and remediation. |
| 3. ODLO is recommended to request completed questionnaires from all its suppliers. This is of importance to assure that all suppliers acknowledge the FWF Code of Labour Practices. |

6. Complaints procedure

Conclusions

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| 1. ODLO does not have an internal complaints procedure within the company. |
| 2. ODLO has not appointed a specific person for handling complaints. |

Requirements

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| 2. ODLO is to designate a person for handling complaints filed through the FWF complaints procedure. |
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7. Improvement of labour conditions

Conclusions

1. ODLO has conducted one audit with the FWF audit team in Thailand and is working on the corrective action plan. ODLO will discuss the corrective action plan with the management of the factory after the MSA.

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.

8. Training and capacity building

Conclusions

1. ODLO works with only one agent. This agent has been informed about FWF membership by ODLO.
2. ODLO staff has been informed about FWF membership through the monthly internal newsletter.
3. The internal newsletter will be used for informing on the outcomes of the recent audit in Thailand.
4. An information session about FWF took place at ODLO's quarterly breakfast meeting.
5. Every employee received a card with ten "CSR-reasons" to buy ODLO products. One of the reasons is ODLO's FWF membership.
6. One person in the company is responsible for addressing questions from the general public on CSR issues.
7. Sales managers have participated in a workshop on CSR.
8. Suppliers have been informed about FWF membership through the questionnaire.
9. ODLO awaits the FWF information sheets for workers to be placed at the premises of the factories.

9. Information management

Conclusions

1. Since the supplier register only contains 19 suppliers. There is no formal way of keeping it updated has been established. One person within ODLO has been appointed to keep the supplier register updated.
2. Two members of Logistics/CSR have been appointed for follow up on audit conclusions.

10. Transparency

Conclusions

1. ODLO uses its website for informing the general public on FWF membership.
2. ODLO uses its monthly internal newsletter on informing on progress related to FWF.
3. ODLO's website gives basic information about FWF, ODLO plans to develop this information.

11. Management system evaluation and improvement

Conclusions

1. ODLO has an internal reporting process on progress made in relation to FWF membership. Every three months ODLO's head of sourcing/CSR reports to the Director Supply Chain Management. Annual progress is measured by performance measures/targets for each staff member of the sourcing department.

Recommendations

1. FWF yearly evaluation of the CSR implementation process – including input from all involved staff – will help enhance the effectiveness of the evaluation.

12. Basic requirements of FWF membership

Conclusions

1. ODLO has handed in a work plan for 2009.
2. ODLO has paid its annual membership fee.

13. Recommendations to FWF

Recommendations

1. FWF should look carefully into cooperation with other initiatives on code implementation. Multiple auditing and standards are making the work of suppliers and buyers more difficult.

Improvement of labour conditions: summary of most important findings	Factory: Thailand 1	
Source:	Audit audit carried out on 29 and 30 April 2009	
Workers interviews	5 workers interviewed prior to factory visit. During audit with randomly selected workers from different categories both men and women	
Documentation	not part of this audit.	
Buyer-supplier relationship (duration)	not part of this audit.	
Sourcing practices (price, leadtime, quality)	not part of this audit.	
Monitoring system of FWF member companies	not part of this audit.	
Management system factory to improve labour conditions	not part of this audit.	
Communication, consultation and grievance	not part of this audit.	
Employment is freely chosen	The company regulation, part of absent stated that facility will not allow the employee to any leave before and after the long holiday, public holiday and in case of emergency matter worker has to submit the evidence of taken leave; otherwise, it will be subjected of absentee. With this enforcement, the workers are forced not to take leave according their right.	
No discrimination in employment	Mgt says hiring workers for the production are required age 18-35 and who are above 35 years old will not consider to be hired.	
No exploitation of child labour	The minimum age of worker in this facility is 18 years old.	
Freedom of Association and the Right to Collective Bargaining	1. No record of the complaints, suggestions from the worker is kept and the result of the complaints from the worker is not posted in order to inform the workers. 2. No any committee in facility that the Myanmar workers/representatives are involved whether joins a member such as the welfare and OSH committees. 3. The report of the meetings of the Welfare committee is not posted. Workers are not informed.	
Payment of a Living Wage	1. The 6 workers in ironing section are paid by piece rate; however, they are not guaranteed the minimum compensation and OT working hours are compensated by average of hourly rate daily basis. Besides, holiday or paid leave of the piece rate worker are not in line the legal limits. 2. The payroll ledger revealed workers were deducted for uniform fee for 120 THB; besides, Myanmar workers was deducted their wage for annually medical check (1,900 THB) & renewal of work permit (1,900 THB). 3. The worker are requested to submit such certificate for sick leave otherwise they are not compensated the wage even though they took sick leave for 1 days. 4. The annual holiday is not entitled to cumulative and postponed and take together with that of the following year or compensated in case of worker did not finish taken the annual vacation in each year.	
No excessive working hours	1. OT hours are 12.5 hours per week on average and maximum is 25 hours per week. 2. Some workers, especially the worker in sewing, cutting and packing are sometimes required to work on Sundays.	
Occupational health and safety	20 points of attention in audit report documented	
Legally binding employment relationship	No employment contract provided for the workers, company used the application as the employment contract.	
Special remarks		