



Fair Wear Foundation

**Management system audit report**  
**Odlo Sports Holding AG**  
**September, 2011**

***FWF member since:***

September 2008

***Sources of information***

Interview with Thomas Spiess (Director Supply chain management)

Interview with Urs Wittausch (Head of sourcing/Production/Logistics)

Annual report and work plan

Archived documents

Database FWF

Audit conducted by:

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## Introduction

In September 2011 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Odlo Sports Holding AG (Odlo). The MSA is a tool for FWF to verify that Odlo 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 Odlo in order to assess the key issues of interest. During the MSA, employees of Odlo 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 Odlo 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 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 Odlo to include information from the MSA report in its social report.



## Executive summary

The company meets most of FWFs management system requirements.

Odlo has been affiliated since 2008. In the first years of its membership the company invested in establishing its management system for social compliance. While the system is in place and information is shared with as well as the buying department and the management, the past year has been focused on the completion of audits and gathering existing audit reports. Due to temporary less capacity within the CSR team, less priority has been given to the processes after the audits.

Odlo has to a great extend a stable supply base. 46% of the value of its production is sourced in factories owned by Odlo. And with over 75% of the suppliers Odlo maintains long standing business relations.

The company meets the threshold that more than 90% of its total purchasing volume is included in the monitoring programme and comes from either an audited factory or factories in low risk countries.

Since the last MSA Odlo has actively followed up on the requirements formulated then, and has completed the supplier register with all suppliers, also those delivering through an agent and subcontractors. Odlo is furthermore providing active follow up to a factory audit where serious non compliances on wages were found. The factory is given support by a local consultant, a process that is clearly guided by Odlo.

Odlo communicates publicly on its FWF membership and provides transparency on their supply chain not only in their annual report but also in a film, available on the website.

As audits revealed that the information sheet for workers with information on the Code of Labour Practices of FWF and its local complaints handler was not posted in a visible place for workers in the factories, Odlo should invest more in ensuring that workers have access to this information. Next challenges are to stimulate steps on improvements in wages towards a living wage.

## Positive findings

### **Conclusions**

1. Odlo has been persistent in the issue of solving non compliances on wages in India and maintained the relations with this supplier during the process.
2. Odlo is increasing transparency and improving the planning of orders in their business relation with their suppliers.

## 1. Sourcing

### **Conclusions**

1. Odlo maintains long term business relations with its suppliers. In the past year Odlo had to end the business relations with a supplier in Vietnam because of issues not related to CSR, and then added one new factory to the supplier list. With over 75 % Odlo maintains a business relation of longer than 5 years.



2. 46% of the value of the production is sourced in factories in Portugal and Romania owned by Odlo. Around 13% is sourced in what FWF defined as low risk countries. 8 % is sourced from a FWF member factory in China. Next to Romania, Portugal and China sourcing countries for Odlo are Vietnam, Thailand, India, Israel, Taiwan, South Korea, Italy and Germany.
3. The system for integrating social compliance issues in sourcing decisions is still in place. Social compliance is included as one of the categories in a checklist selecting new factories, and information on social compliance issues per factory is available to sourcing staff. During the audit it could be confirmed that indeed social compliance issues were included in the communication with a possible new supplier.
4. The suppliers where Odlo places its orders all have returned the FWF questionnaire. During 2010 Odlo has made progress to increase insight in their supply chain, and gathered information on the production units used by an agent in Hong Kong and on subcontractors used by the factories in Portugal, Romania and Thailand. These were all included in the supplier register. The suppliers producing via the agent in Hong Kong received the questionnaire. During the MSA it could not be confirmed that also the subcontractors from the factory owned by Odlo in Portugal, received and returned the questionnaire.
5. Odlo recognizes fabric delays and production planning might have been related to overtime found in the factories during audits. Standard lead times have been fixed to 105/135 the previous years. In order to ease the production process and diminish pressure on lead times, Odlo has set up a project to balance the production better. Lead times are made flexible now, and orders are to be placed earlier. Furthermore production on stock has been used to spread production better over the year. Next to that Odlo is setting up a system to increase transparency in production planning, with future access for all suppliers. This will give more insight as well on the influence of buying practices on possible excessive overtime.
6. In calculating prices Odlo used the open costing methodology. Still sourcing staff does not have enough information on the labour cost input per working minute to be able to ensure living wages can be paid. Audits revealed that factory workers are not always paid on a level local stakeholders estimate as a living wage.

#### **Requirements**

4. Odlo has to ensure that all factories, including the subcontracted factories regularly producing for Odlo, are made aware of the FWF Code of Labour Practices and workers have access to the FWF complaint mechanism, by providing the Information sheet for workers.

#### **Recommendations**

6. It is recommended to assess how further steps forward towards payment of living wages for a regular working week can be made. This assessment should preferably be done together with the supplier and if possible other important buyers. In this discussion the FWF wage ladder tool can be used. One possible solution is to agree to a higher price conditioned to the increase of the regular wages for the workers. Another solution can be to facilitate efficiency improvements in the factory. On request FWF can share

expertise to help the involved parties define a practical framework for such an agreement.

## 2. Coherent system for monitoring and remediation

### *Conclusions*

1. Odlo has a CSR team which includes a representative from the management, the head of sourcing, the CSR manager, the Fabric Development manager and an assistant. A functional monitoring system has been set up with clear information flows to the sourcing department and the management.
2. Since the start of their membership 6 audits have been done with FWF teams. One of the factories delivers through an agent. Although it could not be confirmed which % of the volume of that agent is produced in that production unit, we can confirm that all together between the 55 and 58% of the supply base is audited with local FWF teams. 13% of the purchasing volume is produced in low risk countries such as Portugal, Germany and Italy. Furthermore Odlo has assessed other existing audit reports, and included a follow up in their own monitoring system for two more suppliers in Israel and Vietnam. As a result, the company meets the threshold that more than 90% of its total purchasing volume is included in the monitoring programme and comes from either an audited factory or factories in low risk countries.
3. Staff of Odlo visits most of the suppliers at least once a year. Odlo developed a factory visit form which can be used to register information gathered during factory visits on updates of CAPs or on general social compliance issues. This form is to be used by all Odlo staff visiting the factory, which is not yet a regular practice.
4. Odlo agreed with all suppliers that were audited a corrective action plan. For the last audit performed by FWF during the summer 2011, this still needed to be done at the moment of this audit.
5. When last year a serious non compliance was found regarding to not payment of the minimum wage, Odlo actively followed up the corrective action. The company has had an intensive dialogue with the supplier on an action plan and has facilitated the support of a consultant for that factory. Outcomes are expected later this year.
6. It could not be confirmed that Odlo did check at the suppliers based in low risk countries if the information sheet for workers has been posted as required.
7. There is a designated person in the CSR team to monitor and register follow up on corrective action plans. Due to a change in personnel and composition of the team, these tasks received less priority then the year before and make that the information on the server might not always be up to date. With the team back to full capacity in January it is expected that the former frequency can be restored.
8. Odlo cooperated with another member company regarding the implementation of a corrective action plan for one of its suppliers in China. That supplier has become a FWF member now.

### *Requirements*

4. Odlo should shortly after receiving an audit report agree with the supplier on the

corrective action plan; the actions to be taken, the timeline and the division of tasks.

6. Odlo should ensure, and thus also check, with all their suppliers if the information sheet for workers is posted on a place easy accessible for workers.

### 3. Complaints procedure

#### **Conclusions**

1. Odlo International AG has a designated person responsible for handling complaints of workers. The company has a written procedure for how to handle complaints.

2. In the past year no complaints have been received

3. In none of the 6 factories audited by FWF teams, it could be confirmed during the audit that the information sheet for workers with information of the local FWF complaints handler was posted in the work place. In follow up communication after the audits Odlo reconfirmed that the relevant information sheets were send to the suppliers.

#### **Recommendations**

3. It is recommended that staff of Odlo visiting the factory check if the information sheet for workers is posted in an area which is freely accessible to workers, as well as in high risk countries as in low risk countries. Odlo could consider also facilitating a factory training including information on the complaints mechanism.

### 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 factories. 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.*

Since its affiliation Odlo has done audits with FWF teams at 6 of their suppliers. Odlo has actively taken up the issues found. All findings have been included in CAP's which were agreed upon by Odlo and their suppliers. Following a summary of the major findings:

1. In China in 2009 an audit was done at one of the suppliers. Issues were found and a complaint was handed in on overtime. In the meantime however, the factory itself became a direct member of FWF and has written a work plan on the plans to realize improvement. With the new project on better planning and forecasting Odlo wants to contribute to reducing overtime which was also a problem found during the audit performed in 2010. No updated information was available during the time of this audit on possible improvements realized since last year. In 2011 again an audit was done at another supplier. It was found that the Code was not posted. Furthermore similar issues as in the other two Chinese factories were found. Workers were not well aware of their

rights and did not have the possibility to join an independent union. Excessive overtime was found and not all workers were included in the social security system. The corrective action plan had to be agreed upon still.

2. In Thailand an audit was done in 2009. The open issues were all given follow up upon and improvements were realized according to the system of Odlo.

3. For the factory in Israel with production units in Israel and Jordan Odlo collected existing audit reports. As it was decided to move all the production from Jordan to Israel, no audits will be done anymore in Jordan. For the Israel production location there is an audit report available of enough quality to give follow up on. As living wage is not discussed in that report Odlo agreed to discuss the wage issue separately.

4. In Romania an audit was done in 2009. On the CAP Odlo has frequently communicated with the factory and FWF. Several improvements were realised. The wage issue will need a longer time span to work upon. There are plans for a new building to be constructed that will also solve the problem of storage of in and outgoing materials.

5. Following an audit in 2010, Odlo is monitoring closely the conditions at a supplier in India and has facilitated the support of a consultant for that supplier to work on improvements, especially related to wages.

6. The suppliers in South Korea and Taiwan have not been audited yet.

7. 13% of the volume is produced in Low risk countries Portugal, Germany, Italy, and Switzerland.

### ***Recommendations***

1,5. Odlo could consider facilitating factory trainings to increase the knowledge and capacity of workers and management on their rights and duties and on social compliance issues.

1,3,4,5. Odlo could use the wage ladder web tool to get more insight in the wage gaps with estimated living wage by local stakeholders, and use the information to put the issue of increasing wages towards a living wage on the agenda in the dialogue with the factories.

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

### ***Conclusions***

1. Staff at Odlo has been kept updated on the FWF membership through the newsletter. Employees received also a copy of the product life cycle film, in which FWF membership is explained as part of the whole cycle and a meeting was organised for all staff on the CSR report.

2. A workshop was organised at the international marketing and sales meeting to inform the involved staff on issues related to the FWF membership.

3. In its work plan Odlo included factory training at the supplier in Thailand. It was not clear if that indeed had been organised.



**Recommendations**

3. Steps beyond auditing to improve the working conditions can be made also by providing or facilitating workers and management trainings for the factories as was planned by Odlo. FWF can provide guidance and or suggest organisations to cooperate with from its local stakeholder network.

**6. Information management**

**Conclusions**

1. Odlo has made progress in getting the supply chain more transparent, and included also subcontractors, which are producing via the own factories in Portugal and Romania, and in Thailand.
2. Odlo has a designated person to keep the supplier register updated, including the information mentioned in corrective action plans and updates thereon. Due to temporary less capacity in the CSR team during 2011, the frequency of making sure updates are received was less than the year before. The expectation is that the frequency will be restored after January 2012.

**Requirement**

1. Now that the subcontractors are known, and some are based in high risk countries, Odlo should make sure that they are informed on the FWF Code of Labour practices and get information on the size of orders produced at those locations.

**7. Transparency**

**Conclusions**

1. The CSR report has been published in time and is also available on the company's website. On that website more information can be found as well on their FWF membership.
2. Odlo uses hang tags with the logo.
3. The logo of FWF is furthermore shown prominently at their head quarters, in Odlo monobrandstores and at fairs.
4. Odlo issued two press releases in which issues related to their FWF membership were communicated.

**8. Management system evaluation and improvement**



**Conclusions**

1. The management of the company is updated with written quarterly management updates and evaluates accordingly necessary steps and impact of its FWF membership.
2. The yearly evaluation moment is when establishing the CSR report, where not only input from the management is gathered, but also from all staff members.

**9. Basic requirements of FWF membership**

**Conclusions**

1. Odlo handed in their work plan for the current year.
2. Membership fee has been paid by Odlo for the past year.

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: China 1</b>
	<b>Audit carried out by FWF on behalf of Odlo in November 2009</b>
<b>Workers interviews</b>	34
<b>Documentation</b>	Time, production, sick leave and payroll records inconsistent
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Information on the Code of Labour Practices is not posted in the factory
<b>Monitoring system of FWF member company</b>	No social compliance system in place for the factory yet
<b>Management system factory to improve labour standards</b>	Factory has not informed workers on responsible for social compliance and has not reported on compliance to FWF member company
<b>Communication, consultation and grievance procedure</b>	Management and workers are not aware of FWF Code of Labour practices; No grievance mechanism in place; no workers committee active
<b>Employment is freely chosen</b>	No non compliances
<b>No discrimination in employment</b>	No non compliances
<b>No exploitation of child labour</b>	No non compliances
<b>Freedom of Association and the Right to Collective Bargaining</b>	No independent union active in the factory. Workers are not aware of their right to organise
<b>Payment of a Living Wage</b>	Overtime is not compensated according to labour law. Workers are not informed on wage structure.
<b>No excessive working hours</b>	Workers work in excess of the legal limit of overtime and in a certain period workers didn't get a one day rest within 7 days
<b>Occupational health and safety</b>	Emergency lights and safety exists not functional

<b>Legally binding employment relationship</b>	Not all workers are covered by occupational injury, medical, pension, unemployment and maternity insurances
<b>Special remarks</b>	none

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: China</b>
	<b>Audit audit carried out by FWF on behalf of Odlo in June 2010</b>
<b>Workers interviews</b>	26
<b>Documentation</b>	
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Member company has not ensured that Code of Labour Practices is provided to the factory
<b>Monitoring system of FWF member company</b>	n.a.
<b>Management system factory to improve labour standards</b>	Workers don't know who's responsible for social compliance
<b>Communication, consultation and grievance procedure</b>	Workers are not informed on Code of Labour Practices and grievance mechanism is not complete. Information sheet with the Code is not posted.
<b>Employment is freely chosen</b>	No non compliances
<b>No discrimination in employment</b>	No non compliances
<b>No exploitation of child labour</b>	No non compliances
<b>Freedom of Association and the Right to Collective Bargaining</b>	There is a union, but workers are not aware of their rights and representative is not democratically elected.
<b>Payment of a Living Wage</b>	No non compliances
<b>No excessive working hours</b>	Excessive overtime was found
<b>Occupational health and safety</b>	One safety exit locked, safety devices lacking on a sewing machine

<b>Legally binding employment relationship</b>	Not all workers are covered completely in the social insurance benefits programmes
<b>Special remarks</b>	none

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: China</b>
	<b>Audit audit carried out by FWF on behalf of Odlo in June 2011</b>
<b>Workers interviews</b>	10 workers were interviewed prior to onsite visit
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Sourcing via agent
<b>Monitoring system of FWF member company</b>	No Code of Labour Practices provided
<b>Management system factory to improve labour standards</b>	Factory does not have a designated person responsible for social compliance
<b>Communication, consultation and grievance procedure</b>	No registration of complaints/suggestions
<b>Employment is freely chosen</b>	No non compliances found
<b>No discrimination in employment</b>	No non compliances found
<b>No exploitation of child labour</b>	Juvenile workers not registered as required by law
<b>Freedom of Association and the Right to Collective Bargaining</b>	Workers not well aware of their rights, no independent union
<b>Payment of a Living Wage</b>	Wages are below stakeholders estimates of living wage
<b>No excessive working hours</b>	Excessive overtime is found and overtime is not duly paid
<b>Occupational health and safety</b>	Some issues found, like no rubber mat for standing workers, no evacuation plan posted
<b>Legally binding employment relationship</b>	Workers are not registered with social insurance
<b>Special remarks</b>	

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: India</b>
	<b>Audit carried out by FWF on behalf of Odlo in July 2010</b>
<b>Workers interviews</b>	
<b>Documentation</b>	Records maintained according to the law are not in good order
<b>Sourcing practices (price, leadtime, quality requirements)</b>	Member company has not ensured the Code of Labour Practices is provided to the factory
<b>Monitoring system of FWF member company</b>	Till now production for member company has been done in other production unit. This factory is not yet registered and licensed.
<b>Management system factory to improve labour standards</b>	The Code of Labour Practices has not been placed in prominent place
<b>Communication, consultation and grievance procedure</b>	Workers are not aware of the Code of Labour Practices, there is no worker committee in place and no grievance mechanism.
<b>Employment is freely chosen</b>	No non compliances
<b>No discrimination in employment</b>	It is observed that there are no women in supervisory roles
<b>No exploitation of child labour</b>	No non compliances
<b>Freedom of Association and the Right to Collective Bargaining</b>	No union active, nor a workers committee
<b>Payment of a Living Wage</b>	Most workers get less than minimum wage , pay slips are not given and mismatch records piece rate workers
<b>No excessive working hours</b>	Time records not available for each worker
<b>Occupational health and safety</b>	Several needs for improvement; no fire certification, no fire alarm, lacking protective devices, drinking water not certified as potable.
<b>Legally binding employment relationship</b>	No formal working contracts and social duties are not deducted and deposited
<b>Special remarks</b>	No production for member company in this factory so far. Member company in discussions with producer about future location of production.

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: Rumania</b>
	<b>Audit audit carried out by FWF on behalf of Odlo in Septemer 2009</b>
<b>Workers interviews</b>	5 workers were interviewed prior to the date
<b>Documentation</b>	
<b>Sourcing practices (price, leadtime, quality requirements)</b>	not part of audit
<b>Monitoring system of FWF member company</b>	not part of audit
<b>Management system factory to improve labour standards</b>	not part of audit
<b>Communication, consultation and grievance procedure</b>	Workers are not aware of the FWF Code of Labour Practices
<b>Employment is freely chosen</b>	No non compliances
<b>No discrimination in employment</b>	No non compliances
<b>No exploitation of child labour</b>	No non compliances
<b>Freedom of Association and the Right to Collective Bargaining</b>	Little evidence of workers representatives activity. Workers representatives not well aware of their tasks and responsibilities.
<b>Payment of a Living Wage</b>	Minimum legal wage is payed for all workers, even for new trainees. Most workers are getting payed more than minimum wage. Once the wage ladder is defined for Romania, the factory is recommended to make steps towards increasing all wages towards a living wage.
<b>No excessive working hours</b>	No excessive overtime found
<b>Occupational health and safety</b>	Several findings related to national legislation, job description, training and plan health and safety responsible
<b>Legally binding employment relationship</b>	No non compliances
<b>Special remarks</b>	none

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: Thailand 1</b>
	<b>Audit audit carried out by FWF on behalf of Odlo on 29 and 30 April 2009</b>
<b>Workers interviews</b>	5 workers interviewed prior to factory visit. During audit with randomly selected workers from different categories both men and women
<b>Documentation</b>	
<b>Sourcing practices (price, leadtime, quality requirements)</b>	not part of this audit
<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
<b>Communication, consultation and grievance procedure</b>	not part of this audit
<b>Employment is freely chosen</b>	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.
<b>No discrimination in employment</b>	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.
<b>No exploitation of child labour</b>	The minimum age of worker in this facility is 18 years old.
<b>Freedom of Association and the Right to Collective Bargaining</b>	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.



<b>Payment of a Living Wage</b>	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.
<b>No excessive working hours</b>	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.
<b>Occupational health and safety</b>	20 points of attention in audit report documented
<b>Legally binding employment relationship</b>	No employment contract provided for the workers, company used the application as the employment contract.
<b>Special remarks</b>	none