



Fair Wear Foundation

**Management system audit report**

**Odlo International AG**

**September 16, 2010**

***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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E: Brigitte Amherd and Stephanie Naef (CSR Manager/CSR Contact person FWF)

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## 1. Introduction

In September 2010 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 2010. 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 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 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 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 Odlo International AG to include information from the MSA report in its social report.



## 2. Executive summary

Since affiliation with FWF in 2008 Odlo International AG has established an active CSR team and a monitoring system for their suppliers. Odlo International has a stable supply base. The suppliers register contains suppliers with which the company maintains business relations for more than 5 years. The supplier register does have to be completed with all suppliers. This means that Odlo International AG also has to include those suppliers delivering through an agent and known structural subcontractors. Those production units also need to be included in the monitoring system. Odlo International has done audits in 4 countries with FWF audit teams as planned in their work plan. The audits showed positive findings as well as several issues for improvement. No non compliances were found on child labour, force labour and discrimination. It was found that workers were not well aware of their rights. Odlo International AG has to assure that the information sheet for workers with information on the elements of the Code of Labour Practices and the complaints mechanism is posted in all supplying factories. Odlo already proposed to facilitate a factory training to one of their suppliers. There have also been findings concerning excessive overtime, on which a complaint was received. Odlo International has adequately reacted and included follow up on this issue in a corrective action plan. In a new factory of one of the suppliers in India there was a finding concerning the payment of the minimum legal wage. Odlo International AG took quick action, including offering to raise prices. Odlo International AG has to come to an agreement on a time bound plan to raise the wages for the workers in this factory. The documents reviewed during the MSA showed an active communication on the follow up of corrective action plans agreed after the factory audits. The percentage of the purchasing volume that has been audited and included in the monitoring system exceeds the required 60% based on the duration of FWF membership.

## 3. Positive findings

<b>Conclusions</b>
1. Odlo International AG has actively stimulated awareness on the importance of social compliance in their supply chain and their FWF membership within the whole company.
2. A shared audit was done together with another FWF affiliate with which Odlo shares a supplier and a common CAP was agreed upon.
3. Odlo International AG has taken quick action on serious non compliances in India.
4. Performance on CSR is part of the bonus system for relevant staff in the company.

## 4. Sourcing

<b>Conclusions</b>
1. Odlo International AG has a stable supply base. During 2009 one supplier was added and the relation with one supplier was stopped by the supplier itself. With more than 75% of the number of suppliers Odlo International maintains a business relationship for more than 5 years.
2. In 2009 56% of the production quantities, (which represents 42 % of the production

- volume) originated from factories owned by Odlo International AG.
3. Odlo International AG uses a check list for selecting new suppliers, in which commitment to labour standards is included.
  4. All suppliers have returned the FWF questionnaire.
  5. Odlo International AG uses two different lead times for different product groups: 105 and 135 days. Order dates are based on this number of days.
  6. Odlo International AG is aware of the fact that the seasonal nature of the sporting goods industry is one of the factors which causes overtime. Odlo International AG is developing plans to spread production more evenly over the year with strategic suppliers by improving and sharing forecasting.
  7. Head of sourcing has access to the monitoring system on the suppliers and receives information before he visits a factory. Other staff communicating with suppliers receive a summary of the most important points when they visit factories.

- Recommendations**
5. FWF recommends that Odlo International AG, in cooperation with factories, investigate the root causes of excessive overtime. It is useful to ask factories where excessive overtime is found during audits to carry out a root cause analysis on the factors causing excessive overtime. All incidents of overtime, their origin and severity should be recorded to support this analysis. 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. 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 if and to what extent the factory can control overtime hours, and to what extent Odlo International AG (and possibly its other clients), could help remediate this problem.

## 5. Coherent system for monitoring and remediation

- Conclusions**
1. Odlo International AG has a CSR team which includes a representative from the management, the head of sourcing, the CSR manager, the Fabric Development manager (since August 2010) and an assistant. A functional monitoring system has been set up with clear information flows to the sourcing department and the management.
  2. The CSR assistant is responsible for the process of following up on corrective action plans as part of their ongoing dialogue with their suppliers. She sees to it that the caps are frequently updated, and colleagues visiting the factories receive a summary on the state of affairs. The CSR assistant communicates every two/three months with the audited factories on the follow up of the CAPs. Where possible photos are asked for as proof for the improvement realized. Based on the reply of the factory, findings in the corrective action plan are marked as closed.
  3. Odlo International AG asks their suppliers to inform the company if they have been audited on behalf of other clients and incorporates audit outcomes in their monitoring system.
  4. The Head of sourcing visits the factories twice a year and discusses progress of the corrective action plans.



5. Odlo International AG has recently developed a check list for staff visiting the factory to check and give feedback on some aspects related to the Code of Labour Practices. This will be used from October on.
6. Odlo International AG has conducted a combined audit with another FWF member company and is working on a combined follow up on the corrective action plan.
7. Odlo international shares ideas and discusses with other companies and initiatives on how to reduce excessive overtime at factory level.
8. Odlo has done audits with FWF teams according to their work plan.
9. The percentage of the purchasing volume that has been audited corresponds to the required percentage based on the duration of FWF membership. The factories that have been audited by making use of FWF audit teams represent 51%. Furthermore 18 % is sourced in low risk countries and in 20% of the factories recently audits had been conducted by other initiatives on which Odlo International AG has agreed a CAP. In total 89% of the supply base is included in the monitoring and remediation programme.

### ***Recommendations***

2. The company should not mark findings on non compliances as closed until a next audit has been done, when it refers to issues that might easily come back again such as excessive overtime. In these cases frequent monitoring remains necessary.

## **6. 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. Odlo International AG received two complaints from workers at one of their suppliers in China. The complaints concerned excessive overtime and payments. After investigation FWF found that the factory did have excessive over time, but there were no irregularities regarding payments. Odlo responded adequately together with another buyer at the same factory to the complaint on overtime. Follow up will be given together with the follow up on the corrective action plan agreed upon after the audit performed by FWF. The report on this complaint is published on the FWF site.

## 7. Improvement of labour conditions

### *Conclusions*

Since its affiliation Odlo has done audits in four countries at 5 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. One audit performed in India was conducted at a new production unit from a supplier which maintains already a longer relationship with Odlo International AG. Several issues were found that needed improvement. These included findings related to the factory licences, the absence of formal working contracts and the time records. What is very common in Asia is that the workers were not aware of their rights and were not organised in a workers committee or union. No non compliances were found regarding forced labour and child labour. There has been a finding concerning not all workers being paid at least the legal minimum wage and social duties. Odlo is currently searching for a solution together with the supplier. By the End of August Odlo International AG wrote a management letter and contacted the supplier. Odlo offered to increase the FOB price if needed to help the factory to be able to increase wages. At this moment the reaction of the factory is not yet known. If the supplier shows willingness to improve Odlo will stay with the supplier and work on the CAP.
2. In China two factories were audited. The audits showed that the FWF Code of Labour Practices was not posted in the factory. Also here workers were not very well aware of their rights, although in one factory there was a union. The worker representatives were however not elected democratically. Odlo is discussing at this moment to offer a factory training, which can give more insight to the workers on rights and obligations. No non compliances were found for the code elements on forced labour, child labour and discrimination. In both factories excessive overtime was found. For one of the factories a complaint was received on the use of overtime. Odlo has started a dialogue on improving forecasting and planning. That could contribute to reducing the excessive overtime. Not all workers in the factories were covered by social security schemes for occupational injury and medical insurance, as this is very common in China.

The other suppliers in China deliver through an agent. Odlo is collecting all the necessary data on the factories to include them also in the suppliers register and the monitoring system.

3. In Thailand one audit was conducted which showed that some workers did not have a formal working contract. Taking leave was restricted for workers and therefore not according to the law. Several issues were found that needed improvement related to occupational safety and health at the workplace. Excessive overtime was found and over time compensation was not adequate. No findings were reported on child labour. Odlo included all the findings in a CAP and has communicated frequently with the factory on the progress. Most improvements were realised according to Odlo at the time of this management system audit.
4. An audit conducted in the factory in Romania showed that workers were not aware of the FWF Code of Labour Practices. Worker representatives were in place, but were not active as such because of lack of awareness on their roles. No findings were reported on forced labour, child labour and discrimination and no excessive over time was found. On safety and health at the work place need for improvements were found. Although at least legal minimum wage was paid and even more for most

workers, a stepwise improvement towards a living wage will be needed. 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.

5. The supplier in Vietnam has been audited by FLA. Odlo requested earlier audit reports and found out that almost all findings are already closed. Odlo is following up on the remaining ones. Visits by the Head of Sourcing of Odlo to the factory confirmed the good conditions in the factory.
6. The supplier in Israel has also a production location in Jordan. That supplier participates in the Better Work programme of the ILO to improve working conditions. Odlo received earlier audit reports and prepared a CAP to follow up on the findings. Odlo is planning to do an audit in Israel.
7. The suppliers in South Korea and Taiwan have not been audited yet.
8. 18% of the volume is produced in Low risk countries Portugal, Germany, Italy, and Switzerland.

*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.*

### **Requirements**

1. - 4. Odlo International AG has to assure that the information sheet for workers with information on the elements of the Code of Labour Practices and the complaints mechanism is posted in all supplying factories.
1. In the factories in the supply base at least minimum wage must be paid. Odlo International AG has to come to an agreement with its producer in India on a time bound plan to realise this within six months after the audit.

### **Recommendations**

1. – 4. The establishment of an independent workers committee or workers organising in a union is an area for improvement in the factories that have been audited. Odlo International AG is already considering 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.
1. – 4. FWF is soon publishing wage ladders with benchmarks on wage info in several countries. In these wage ladders not only minimum wage is benchmarked, but also estimates of stakeholders on what should be a living wage in a country/region will be included. This can be used as a tool to discuss with suppliers on a stepwise approach to reach living wages for the workers in the factories.



## 8. Training and capacity building

### *Conclusions*

1. Staff of Odlo International AG is being actively informed about FWF membership and its implications. Issues related to social compliance appear in several newsletters, the social report was presented internally and press clippings related to CSR are distributed among staff.
2. Staff of Odlo International AG is also informed through in-house meetings, such as meetings for all staff of Odlo International AG and specific meetings for sales and marketing staff.
3. Odlo International AG has proposed a factory training to one of their suppliers.

### *Recommendations*

3. FWF recommends to assess to what extent it is of added value to hire a local service provider to support factories in the process of realising improvements. FWF recommends choosing this approach if the factory has demonstrated its commitment to this process. It is beneficial to share the cost of hiring the expert between Odlo International AG and the factory concerned. FWF can make further suggestions and provide references of credible service providers on request.

## 9. Information management

### *Conclusions*

1. The supplier register submitted to FWF specifies the share of each supplier in the total purchasing volume, but the FOB amounts and percentages for Odlo Romania and Odlo Portugal are combined in this overview. ODLO did specify to FWF the share of each supplier in the total purchasing volume and provided figures in their annual report per country.
2. There is a clear procedure to keep the supplier register updated and a clear procedure for information flow between sourcing and CSR department.
3. The supplier register for 2010 does not contain the production units supplying Odlo through the agent in Hong Kong.
4. When planning for audits, the CSR team of Odlo International AG discovered that some factories structurally use subcontractors which were not included in the supplier register yet.
5. A quarterly management update is presented to the board on audit results and updates of the monitoring.

### *Requirements*

1. The FOB amount and percentage of production has to be indicated per supplier as well



in the supplier register send to FWF. .

3. - 4. Supplier register needs to be completed with all suppliers, including those delivering through an agent and known subcontractors. Those production units also need to be included in the monitoring system.

### ***Recommendations***

3. Member companies should communicate to suppliers about including subcontractors also in the monitoring system.

## **10. Transparency**

### ***Conclusions***

1. The annual social report on 2009 has been received in time, and was placed on the website of the member company.
2. Information about FWF membership is posted on the website of Odlo International AG in correct wording.
3. Odlo International AG informs the public about its FWF membership through a booklet on Odlo products provided to retailers.
4. Odlo International AG uses a stand with the FWF logo during fairs.
5. Odlo International AG is now preparing a new tool to create transparency on the creation of a product. This tool will be released in November 2010. One part will be on the FWF affiliation.

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

### ***Conclusions***

1. Odlo International AG evaluates annually in a systematic manner to what extent goals related to its FWF membership are achieved.
2. Performance on improving labour standards in the supply chain is measured and evaluated during board meetings.

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

### ***Conclusions***

1. The work plan for 2010 has been received by FWF.
2. The membership fee for 2010 has been paid by Odlo.



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### 13. Recommendations to FWF

<i>Recommendations</i>
<ol style="list-style-type: none"><li>1. FWF should prepare more standardised information and be able to give quick advice on the most common issues. For example how to deal with agents, and which subcontractors to include in the register.</li><li>2. FWF should immediately after affiliation send the needed translated information sheets for workers.</li></ol>

<b>Improvement of labour conditions: summary of most important findings</b>	<b>Country: China 1</b>
	<b>Audit 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 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: 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: Romania</b>
	<b>Audit carried out by FWF on behalf of Odlo in September 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 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.



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