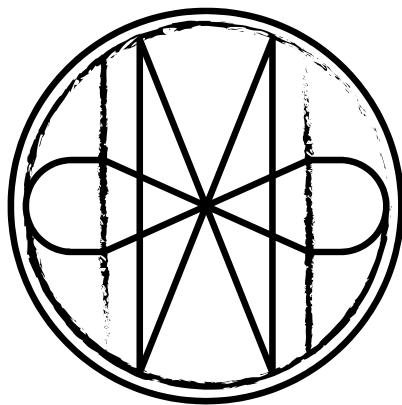




# **MADNESS** The Nature Textile Company

## **social report**

Reporting period (Financial year: 01/2019 – 12/2019)



**MADNESS**  
THE NATURE TEXTILE COMPANY

[WWW.MADNESS-ONLINE.COM](http://WWW.MADNESS-ONLINE.COM)

FAIR WEAR MEMBER SINCE [08/2014]

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# MADNESS social report

Our company values are action pointing for our internal and external behaviour. Our team, our production partner, our service provider, and our customer are all treated the same way. Appreciative, and equal at eye level. Our acting bases on four core values, and is consistently expressed in the design of our collections to make everyone in the lifecycle of our products feel comfortable.

*“The importance of improving the labour conditions in the supply chain of garment production is not far to seek.*

*The motivation to work is increasing and in bad cases decreasing proportionally to the improving, or deteriorating labour conditions. We are looking for better labour conditions in our production and envisage a higher quality for our products. The expected improvements of labour conditions, therefore, bring along a win-win situation for the different stakeholder in form of workers in productions units, for us as a brand, for the owner of the factory and nevertheless the consumer. Also, we will ensure that our products can be sold and worn with a pure conscience, what is a special benefit besides the improvement along our supply chain and will be verified throughout higher transparency along our supply chain.”*

– M. Warnke, General Manager –

## Organisational chart

**Our sustainability goal is to establish a completely sustainable product lifecycle according to our company values:**

*Transparency - Deference to our environment – Human first - Innovation*

To establish all of our values alongside our supply chain we decided to always only use natural, and eco-friendly raw material for our products only, and we decided to manufacture our goods under the strict compliance to the Global Organic Textile Standard (GOTS). As we still believe that sustainability is a holistic, and action orientating philosophy, we also want to produce our eco-friendly goods under fair conditions for our partner alongside the supply chain of our products. Since 2014 we have also been a member of the Fair Wear Foundation (FWF) – an independent, non-profit organization that works together with its member companies and production facilities to improve working conditions in the textile industry.

We believe that there is room for improvement in all our actions. And because of this fact, we are also aware that the work towards reaching the goal of a holistic sustainable product lifecycle will never end. As a medium-sized family business, it is particularly important for us to take responsibility for our own employees and the workers who manufacture our products.

## Summary: 2019 goals & achievements

In 2019 we were able to implement a number of goals and projects to improve social standards in India. To achieve this, we must also constantly review and adapt our processes and management internally. The goals and achievements are summarized below. The entire Social Report provides a greater insight into our activities with regard to the implementation of the FWF Code of Labour Practices (CoLP) in our production.

GOALS	DATE	ACHIEVEMENTS	
Fair Wear Foundation positively evaluated the management of MADNESS in regards to social standards.	2019	In 2018 the Fair Wear Foundation again rated the management practice of MADNESS for the implementation of fair working conditions in the textile supply chain as "good". It confirmed, thus progress for the commitment. We would like to build on this in the next and continue to improve.	✓
All subcontractors and suppliers in the deeper supply chain are known to Madness and have signed the FWF Code of Labour Practices (CoLP).	ongoing	We focus on transparency in our supply chain. In close cooperation with our production partner, we have already taken great steps and have achieved the disclosure of further suppliers. They have all signed the FWF CoLP. We will continue to pursue this goal in the future.	○
Our production partner shows improvements in the implementation of the corrective action plan. These are systematically implemented with the help of the new consulting agency.	2019	There is a responsible CSR and HR manager in our production facility, who also worked intensively in 2019 on the improvement measures resulting from the audit in 2017. In addition, the consulting agency (India) changed in 2019.	✓
Excessive overtime at our production partner is reduced.	ongoing	In 2019, we also tried to fight the causes of overtime at the root, for example, by preparing appropriate documents (technical sheets) for our production partner. In cooperation with the management of the factory and the consultant agency in India, we want to adapt the processes in the long term. This is a step-by-step process.	○
We pay a Living Wage for our production partners.	ongoing	In 2019, a pilot project for the implementation of a Living Wage has been launched. We discussed the first specific steps of our road to payment of a living wage for all workers at our production site. As first steps we identified the labour minute costs for the production of our goods and we conducted an initial survey among employees in the production.	○
Our production partner takes part in trainings on the FWF Code of Labour Practices and complaints procedure.	2019	In 2019, our consulting agency from India conducted internal training courses at our production partner. These addressed, for example, various topics related to health and safety, firefighting and employee complaints.	✓
A systematic complaints system is established and any complaints that arise are resolved in cooperation with our production partner.	2019	We have continuously raised awareness of the complaint system. The complaints that reached us in 2019 have already been resolved.	✓
The employees who visit the production site discuss the open points with the management on site.	2019	Our design staff and the general management of MADNESS visited Parvati Fashion in India four times in total in 2019 and discussed open issues concerning social standards and FWF.	✓
We publish information about our production partners on the website.	2019	Information about the production partner in India - Parvati Fashion was published in the social report 2018. It is available to all stakeholders on the website	✓

# Sourcing strategy

## SOURCING STRATEGY & PRICING

**Stability and trust are the basis for the cooperation with our production partner. This basis opens up many opportunities to grow together and develop new collections, while at the same time working on social and environmental standards.**

### (1) Sourcing strategy

Within our current business model, MADNESS continues to focus on the single-sourcing strategy. We develop our own products and collections in cooperation with our production partner. In the future, we want to select potential production partners carefully. A potential production partner must satisfy our demands in terms of sustainability. Out of this reason investigations of past and existing audit reports will take place, the consideration of applicable country studies of FWF and other organisations. Due Diligence and risk analysis also play an important role in this respect. To this, we would like to exchange information with other FWF members and stakeholders, such as trade unions in the respective production countries. Besides this first step of monitoring the sustainability, we initially clarify at our first contact, if a supplier is already working on improvements of their working conditions/working in compliance to different standards as there are GOTS, the basic requirements of applicable regional depending laws, and the acceptance of FWF's Social Code of Conduct and moreover the agreement of the supplier to work on the improvement of working conditions in their production unit(s). In addition to the mentioned clarifications we introduce ourselves as FWF member and explain our focus on compliance to the FWF Code of Labour Practices, and our intention to work in deference to our environment. When we decide to cooperate with a new supplier we ask for other FWF member that are already sourcing from this particular production site, and we send the CoLP to the manufacturer to be discussed, and signed. If a potential partner refuses to meet these requirements or makes no effort to do so, we will not cooperate. The decision is made by the purchasing department, in which purchasing management, buyers, product developers and the sustainability team are involved. The other essential condition is that the supplier must be able to produce our goods in terms of available production capacities, and in terms of technical production capabilities, to meet our needs. We learned that the discussion on production capacities is a really intense one, because it is still common practice in world trade that no party of a supply chain is transparent in regards of their own costs. But we want to make sure that future supplier are fully understanding our path to becoming holistically sustainable, and more than that accepting, and supporting this way. When both essential conditions are satisfied by the potential new production partner, our onboarding process includes to place a test purchase order and we will evaluate the onboarding process, and the product quality.

### (2) Pricing Strategy

We are a cost-plus pricing company and still accept the prices that occur due to changing raw material prices and currency fluctuations. We trust our partner to calculate prices that are compatible with our whole supply chain. Price negotiations will only occur for particular lots if high order quantities are enabling lower production costs. What really changed in pricing discussions is that we supplemented the focus on how marketable a product is by how supporting the price for the implementation of social compliance is.

## PRODUCTION CYCLE

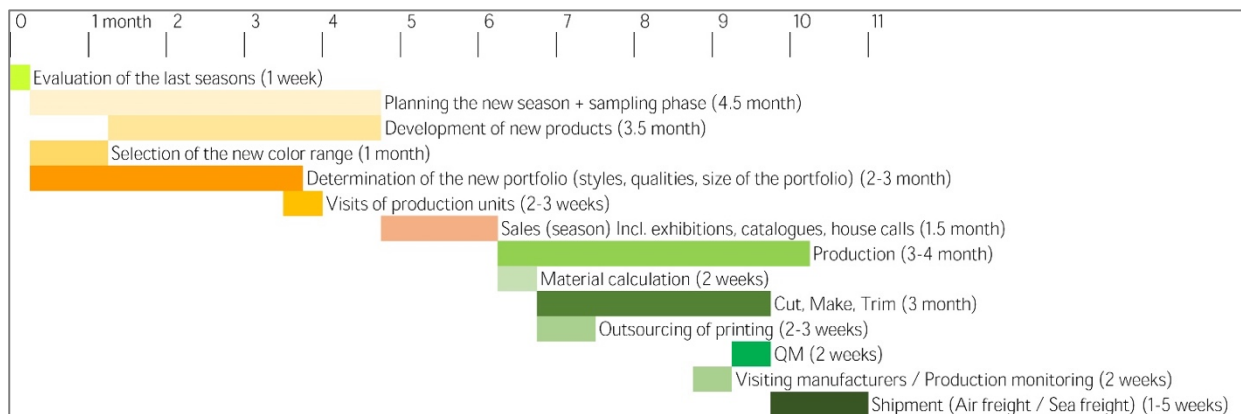
**Behind our products are complex processes that require close coordination with our production partner in India. In contrast to other fast fashion companies, MADNESS focuses on only two collections a year – Spring/Summer and Autumn/Winter.**

Currently, our winter and summer collection both pull in sales of around 50% of our total turnover. In general, we have a pre-order period in which our B2B clients order. MADNESS Customers can be separated into two parts, from which every part makes estimably 50% of our turnover: Part1 - The mail order companies; Part2 – The boutiques and other smaller retailer. The mail-order companies are the first that see our sample collections, but the last customers that order. For mail order purchases we established a lead time of three months. Referring to Part2 we established a lead time of 4–5 months after order placement (it is important to know, that the fabrics, colour variations, and different styles are already fixed latest eight to nine months before the shipment). In addition, we let 10-15% more goods be produced than ordered. The costs for the overproduction are covered by MADNESS, to support Parvati Fashion and increase their procurement quantities.

For several years now, the order of our Spring Summer collection is placed at the beginning of September. In 2016 we changed the date for the order placing in from mid of September to the beginning of September, to broaden the time for the production period. Enlarging the lead time is part of our prevention against occurring overtime.

The order of our Autumn Winter collection is placed at the beginning of March. We changed the date for placing the order of the Autumn Winter season by around half a month (before we placed the order at the end of March), to get more time for the production of our goods.

The following figure is showing a typical production cycle at MADNESS:



## **FACTORY RELATIONS**

We are known for long lasting business relationships. Out of this reason we stuck to the focus on a cooperation with our main production partner Parvati Fashion since 2010. Trust and close contact are part of our relationships. We are always looking for as much transparency, in all processes of our supply chain, as possible. The long-term cooperation with our production partner means stability, planning reliability and trust for both sides. As production processes and working hours can be planned more predictably, we can also work to avoid overtime. Looking into the future together is also an incentive to commit to a good and humane working environment in the factory as well as to a careful treatment of the environment.

In the future we plan to on-board new production partners. For the selection of a new production partner it is important that this partner has a similar philosophy as MADNESS. He should be able to produce our garments in an environmentally friendly and humane way. Ecological standards, such as GOTS certification, play an important role, but also the social requirements of the Fair Wear Foundation. We therefore exchange information with other members of the Fair Wear Foundation in advance. It is also important for us that the new production partner shows the ability to produce smaller quantities of a wide range of products and also to be able to produce our ordered goods in time. As a rule, we have lead times of three or four months after placing the order. Four months for our small customers when placing their orders and three months for the production of our mail order customers.

## **INTEGRATION OF MONITORING ACTIVITIES AND SOURCING DECISIONS**

**Audits give us an insight into where our production partner stand in their development and are the basis for implementing the FWF CoLP and our sustainability strategy.**

The latest evidences show that Parvati is willed to help us getting on track towards reaching our sustainability goals. Parvati is starting to understand that they are indirectly rewarded with growing quantities, and production turnover if they confirm their commitment to Social Compliance by improving their working conditions instead of balk at it. Nevertheless, we noticed that we have to develop a responsible exit strategy to make sure we will have a plan B if Parvati is retrieving their new gained commitment to sustainability. Which has been the reason why we decided to adjust our sourcing strategy in 2018. If any complications like complaints or repeating non-compliances should be noticed, we will discuss this immediately, progressive, proactive and supporting. Our production partner will always have a right to transparently get to know from us how we will react on non-compliances, and how we will proceed if they are not committed to our strategy of becoming holistically sustainable. An open discussion on if we will reduce our purchase quantities, and what has to happen to avoid this reallocation will timely take place after the evaluation of every distribution season.



## Coherent system for monitoring and remediation

**We carry out audits of our production partner approximately every three years. Whether we plan to conduct one depends, among other things, on how the company performed in previous audits.**

Fair Wear Foundation carries out the **independent audits**. As part of their audits, the auditors talk to local managers, analyse relevant operating documents, inspect the entire production site and conduct confidential discussions with employees and their representatives. At least one member of the audit team always speaks the local language. We usually announce the audit visits in advance. This ensures that all persons with appropriate responsibilities are present. The costs for all audits at the site are borne by MADNESS. Any deviations from the FWF CoLP identified in the audit are discussed with management and discussed with the responsible managers and employee representatives during the audit. Together they draw up a binding **correction action plan (CAP)**. This plan lists all necessary improvements and defines measures within a certain time frame. We support our production partner in analysing the reasons for the deviations, make suggestions for improvement and also regularly review our own purchasing practices. The aim of the cooperation is to implement improvements step by step and to implement them in the long term. Regular **follow-up visits** enable us to gain an insight into the corrective actions and improvements that have been implemented.

### PARVATI FASHION/INDIA



**The Indian textile industry is one of the leading in the world. Over the years, the textile industry there has developed into an important export sector and thus also contributes to local economic growth. In the course of our long-standing cooperation with our sole production partner Parvati Fashion, we have jointly developed know-how in the production of sustainable clothing.**

Parvati Fashion is a Noida based organic garment manufacturer specialized in producing women wear and engages in sampling, cutting, stitching, sewing, and finishing processes. With the monitoring activities relating our main production unit, estimably 100% of our production is under our own monitoring. Our leverage at Parvati Fashion is around 85%. Since 2019 a new external consulting agency (Achievers) supports Parvati Fashion in implementing the improvement measures. They are located close to the production site and can support the management and the CSR officer with their knowledge in the various projects and arising tasks at any time. The external consultant is SA8000 certified and therefore has a broad knowledge of social standards. The last FWF audit for Parvati Fashion took place in 2017. Since then, the management of the company has been constantly working on improvement measures. A follow-up audit is planned for 2020.

A country-specific risk, which is also still a major challenge for our production partner, concerns excessive working hours. In cooperation with our production partner MADNESS tries to adjust and optimize the internal processes as well as Parvati Fashion in order to reduce overtime. Transparency and trust is especially important for this. Since 2019, Parvati Fashion has been providing us with a



monthly overview of salary payment inclusive the overtime pay to ensure that all overtime is paid to employees. Another important step forward in 2019 was the disclosure of Parvati Fashion's subcontractors who help the factory to finish our products. The external advisory office carried out its own audit of the subcontractor, who is relevant for MADNESS. This enabled us to get a first impression of the factory and we are in constant contact with Parvati Fashion to ensure that social standards are also maintained there. There were also significant changes to the finding that there was no independent union or workers committee which is run by workers without management involvement. For this purpose, a training took place in 2019. Documentation and reports were kept. The workers were informed in advance for the election. The 2017 audit also revealed that there are no women in supervisor positions. We discussed this several times with the factory management and they are now encouraged to create a workplace which encourages women to take supervisory roles by providing them adequate training in 2019. As we have not yet been able to guarantee Living Wages in the factory, we are working together with Parvati Fashion on the first calculations and have been discussing the topic intensively since 2019. We want to make further progress in this respect in 2020.

To follow up on those topics, we visit the factory in general 4-5 times a year. In 2019 we visited Parvati Fashion four times. When visiting a factory, we pursue different objectives. The general management or the employees from design discuss the FWF requirements and the open points from the CAP with the management as well as the employee responsible for CR and HR on site.



1: Pinki Devi & Usha Devi from Parvati Fashion



2: Finishing at Parvati Fashion



3: Packing at Parvati Fashion



4: Entrance of the factory (Parvati Fashion)

## Complaints handling

**The Fair Wear complaint system is another way of implementing the Code of Labour Practices locally, in the production facility.**

The complaint system gives employees the opportunity to contact the independent Fair Wear Foundation in the event of difficulties. FWF provides an information sheet with the employment rights and contact details for complaints in the respective national language. The production sites must display this in a clearly visible position. The procedure is repeatedly discussed in training sessions and during visits. Fair Wear publishes all complaints and measures to resolve them on its website. In 2019 we received two complaints from employees of Parvati Fashion.

### #612

The complainant worked at the factory for about four years. When he/she tried to return after a week's leave, the employee was seriously injured and he/she was unable to resume his/her work. He/she informed his/her supervisor that he/she could not appear for work at first. The recovery lasted three months. When he/she returned, his/her position had already been filled. The management suggested him/her to resign and take his/her full and final payment. After not receiving a call from HR to collect the full and final payment, the complainant turned to the FWF's complaint hotline. Subsequently, numerous discussions with Parvati Fashion took place. In a further call with FWF complaint handler the complainant asked if he/she would be paid for the days he was sick. As a result, all contributions were paid to the employee. He/she can also avail the Indian Employees' State Insurance (ESI) benefit during his/her sick period since his/her Employees' State Insurance (ESI) contribution was already paid in earlier month. The outstanding documents he/she will collect when he/she meet the management personally as he doesn't want to give his actual address. The complaint has thus been resolved and is already closed.

This has resulted in the following learnings: In this case the supplier shouldn't have dismissed the complainant but they did since they had not heard from their employee would not return to work. The employees were informed through training that they always have a duty to inform the HR management if they are unable to attend work and in case that does not happen the management has to proactively ask. In such cases now, the factory sends letters by courier in which employee is made aware of his/her behaviour and is asked to report immediately to the factory management because otherwise it must be assumed that the employee doesn't not return to work and therefore appropriate labour law steps must be taken. All employees as well as the HR Management also received training on ESI to enable them to deal better with such situations in the future.

### #615

The complaint was received from an employee who was dismissed. He/she wanted to use the FWF complaint hotline to ensure that he/she received all severance payments and benefits to which he/she was entitled. Also, the employee felt wrongly dismissed for a mistake that was not in his/her responsibility. He/she reported that he was insulted in front of all the workers on the shop floor and felt humiliated. After clarifying which full and final payments, as retrenchment compensation by the external advisory service, Parvati Fashion was ready to make all payments. When the payments were made, the worker who had been unemployed since the termination was reinstated. The complaint has thus been resolved and is already closed.

This has resulted in the following learnings: In the first step, the management was briefed to seek an individual interview with the employees to clarify the incidents calmly. Additionally, a warning should be issued before a direct dismissal was issued.

## Training and capacity building

### ACTIVITIES TO INFORM STAFF MEMBERS

Every employee of MADNESS is aware of our FWF membership. We are proactively communicating progresses and regresses regarding social standards in our supply chain to our employees and customers. Especially our design team, and the purchase team; responsible persons are briefed to make sure they do everything that is possible to ensure fair labour conditions in our garment production. All complaints, and reports are shared with our employees. The general management as well as the employees from design and technology are directly participating on the CSR proceedings at MADNESS. All others are informed regularly.

### ACTIVITIES TO INFORM MANUFACTURERS AND WORKERS

**In the context of topic-specific trainings and education, we constantly promote the implementation of social standards and compliance with the Fair Wear Foundation Code of Labour Practices. Training courses strengthen the awareness of all employees for social and environmental standards and give them the opportunity to develop independently.**

Our production partner, Parvati Fashion, also regularly takes part in the training programmes, the so-called Workplace Education Programmes (WEP) of the FWF. The trainers and instructors of the FWF speak the local language and are familiar with the cultural customs in the respective countries. The last WEP took place in 2018. In 2019, we relied on the experience and knowledge of our new local consulting agency and conducted various training sessions at the production site. These addressed, for example, various topics related to health and safety, firefighting and employee complaints. A particularly great event in 2019 was the training for the official foundation of the Worker Welfare Committee (WWC). This gives employees the opportunity to organise themselves independently and to stand up for their rights. Days before the event, the announcement generated a great deal of interest and a exchange of ideas among the employees.



5: The employees of Parvati Fashion receive training on woman's rights.



## Information management

**The management, design staff and the CSR team are in constant communication with our sole production partner Parvati Fashion. In 2019 we have worked together to complete the subcontractor list.**

All subcontractors have signed the Fair Wear Foundation Code of Labour Practices. Subcontractors are, according to the definition of the FWF, also directly involved in the production of the product (cut, make, trim). The suppliers in the deeper supply chain are, for example, dye works and material suppliers, the so-called wet processes. These are therefore also called Tier 2 suppliers. All those suppliers are known because they are mentioned on the GOTS scope certificate of Parvati Fashion, which is evaluated as soon as we receive the GOTS scope certificate, which must be replaced every year. We always have the latest scope certificate of our production partner, because otherwise our certifier would not replace our old scope certificate. Besides the checking of the GOTS scope and transaction certificates our general management often visit all Tier2 supplier of Parvati Fashion, to refresh and strengthen the business relationships. Due to the combination of the systematic verification of FWF, GOTS and our strong business relationships, it is very important for us to constantly monitor our supply chain.

## Transparency & communication

MADNESS is communicating its FWF membership on fashion shows (fairs), its catalogue, the own website and in sales meetings. Furthermore we are publishing the social report on our website and if applicable the Brand Performance Check. To outline which achievements we have, and to inform about the actual state of affairs regarding implementations of the FWF CoLP. The most important finding from

100% of our production is under monitoring, because 100% is fulfilled at our main production unit Parvati Fashion. Due to our high leverage of 85% at Parvati Fashion, but also high dependence of Parvati Fashion, we are used to have a strong cooperation with them. Thanks to the increasing trust in our business relationship, and the prospering cooperation of the last years, we noted that Parvati Fashion is getting higher committed to our common perception of sustainability, and the importance of its implementation alongside our supply chain. In this case transparency is a key driver for improvement, and the adjustment to mutual goals.

## Stakeholder engagement

**We have numerous relevant stakeholders who have different expectations of MADNESS. They include employees, consumers, customers (B2B), production partners and their employees, non-governmental organizations, politics, media and institutions.**

We are in continuous dialogue with our stakeholders. In particular, we are in close contact with our partners such as the FWF, the member companies and GOTS in order to implement social and environmental standards. Since we work closely with our production partner in India, the following stakeholders are also relevant for us: external consulting (Achievers), the Indian government and Trade Unions. We are convinced that we can only change textile supply chains in cooperation with all stakeholders.

A good and relevant information source related to the topic of social justice/sustainability is FWF including its meetings (annual conference, and German stakeholder conference) here we inform ourselves by attending these meetings, or reading new publishing e.g. the country study for India. These are our main sources to get to know about the main concerns in the Indian textile production. Also we are keeping involved into the topic throughout other stakeholder meetings and seminars.

## Corporate Social Responsibility

Our philosophy determines very strictly the topic environment protection. We are completely focussing on an organic garment production and only use natural textiles for our garments. Our goal is to adjust our whole organisational environment towards a green and sustainable company environment. Because of that all our processes are reconsidered regularly to become more efficient and appreciating our environment. We care for our environment. All our employees are encouraged to reconsider their behavior and work processes to ensure a greener future.