



Fair Wear Foundation

## Management system audit report

### Fabric Scandinavien

2011-03-09

*FWF affiliate since: 2007-09-01*

#### ***Sources of information***

Database FWF

Annual report and work plan

Archived documents

Interview with Irene Häglund (CSR / contact person for FWF)

Interview with Håkan Ström (Managing Director, Weekday Brands)

Interview with Maria Landeblad (Team leader Cheap Monday)

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***Index***

|   |    |
|---|----|
| Introduction  | 3  |
| Executive summary   | 4  |
| Positive findings   | 4  |
| 1. Sourcing   | 5  |
| 2. Coherent system for monitoring and remediation                           | 6  |
| 3. Complaints procedure   | 7  |
| 4. Improvement of labour conditions   | 8  |
| 5. Training and capacity building   | 9  |
| 6. Information management   | 10 |
| 7. Transparency   | 10 |
| 8. Management system evaluation and improvement                             | 10 |
| 9. Basic requirements of FWF membership                                     | 11 |
| 10. Recommendations to FWF  | 11 |
| Annex. Improvement of labour conditions: summary of most important findings | 12 |



## Introduction

In March 2011 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Fabric Scandinavien. The MSA is a tool for FWF to verify that Fabric Scandinavien 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 and 2011. FWF tailored the MSA to the specifics of the management system of Fabric Scandinavien in order to assess the key issues of interest. During the MSA, employees of Fabric Scandinavien 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 Fabric Scandinavien 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 Fabric Scandinavien 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 Fabric Scandinavien to include information from the MSA report in its social report.



## Executive summary

At the time of the management system audit, Fabric Scandinavien had been affiliated to FWF for more than three years. At this point, all the suppliers of Fabric Scandinavien had been audited, the majority gone through management trainings on CSR and at most suppliers several follow up visits had been done. The company can point out concrete improvements at supplier level, as well as remaining issues and how these will be followed up. The company meets most of FWFs management system requirements.

The absolute majority of Fabric Scandinavien's suppliers are situated in China, with a few suppliers in Bangladesh,. During Fabric Scandinavien's first year of FWF affiliation their focus was on auditing their suppliers in China. During year two, Fabric Scandinavien shifted the focus to strengthening suppliers' ability to cope with CSR-issues through a training program. During year three, all suppliers underwent a full audit.

Fabric Scandinavien owns several fashion brands including Cheap Monday, Monki and MTWTFSS. These brands are sourced through three different subsidiaries of Fabric Scandinavien: Monki, Weekday and Weekday Brands. The factories producing for Weekday Brands are covered by independent verification through the affiliation to FWF. The sourcing by Monki and Weekday should be covered by independent verification by Fair Labour Association (FLA) of which Fabric Scandinavien's owner H&M is an affiliate.

The first three years of Fabric Scandinavien's FWF affiliation has also been influenced by ongoing restructuring in the company. Due to the changes that this has brought about, it is the decision of Fabric Scandinavien to only remain a FWF member through its subsidiary Weekday Brands from 2011 and onwards. For this reason, this MSA also focuses on Weekday Brands, the entity that will remain affiliated to FWF.

One person is now working full time with the CSR-issues of Fabric Scandinavien based in Sweden at the head offices. During 2010, one person in China has been working directly with the suppliers doing among other things audits and follow up. The commitment to CSR work as showed in dedicated staff time, has also paid off in swift response times to, for example, complaints from workers that have been filed. The ability to frequently visit the factories to follow up working conditions has also paid off in clear corrective action plans that are often updated. FWF's verification audit at one supplier showed that the rate of improvement does need improvements in some key areas such as wages paid.

## Positive findings

### **Conclusions**

1. Fabric Scandinavien has covered 100% of its supply chain in their monitoring system.
2. The audits of Fabric Scandinavien gives a lot of focus on ensuring that suppliers have the ability to improve working conditions at the factory, giving suppliers grades on management system.
3. Fabric Scandinavien follows up corrective action plans by frequent visits at factory level by competent CSR-staff.
4. Fabric Scandinavien provides support to their suppliers in China in order to strengthen their ability to implement the code of labour practices themselves.



## 1. Sourcing

### *Conclusions*

1. There are three different entities of Fabric Scandinavien: Monki, Weekday and Weekday Brands. For Monki and Weekday, all sourcing is done by H&M's buying offices (Puls trading) in China, Turkey and Bangladesh. The Turkey office also source from Lithuania. The sourcing of Monki and Weekday is covered by independent verification through H&M's affiliation to FLA during 2010.

2. For Weekday Brands the sourcing is done via staff at H&M's office in Hong Kong (Puls trading). This staff is dedicated to working only with sourcing for Fabric Scandinavien. In 2011, some production for Weekday Brands will also be done in Bangladesh. There is no written sourcing policy covering all entities of Fabric Scandinavien. From 2011 and onwards, only Weekday Brands will be affiliated to FWF. The sourcing of Weekday Brands is covered by independent verification through Fabric Scandinavien's affiliation to FWF.

4. It is the ambition of Fabric Scandinavien to have long term cooperation with their suppliers. From the supplier register submitter for 2011, it can be seen that they are sourcing 12% of the production from supplier that they started to work with in 2005, 21% from 2006 or earlier, and 6.7% from supplier that they started to work with in 2010. In the supplier register for 2009, 16% of the production from supplier that they started to work with in 2005, 35.8% from 2006 or earlier, and 27% from suppliers that they started to work with in 2009.

5. No new supplier is allowed into the ordering system unless a social audit has been made at that production facility showing that the supplier reaches a minimum standard and is willing to sign the code and fill out the questionnaire. New suppliers are also requested to commit to the Code of Labour Practices before the first order is placed.

6. Fulfilling minimum requirement for working conditions is a condition for placement of new orders. However, rate of improvement of working conditions in the factories are not systematically weighted into the decision making process on where orders are placed among existing suppliers.

7. During audits conducted by FWF, issues regarding excessive overtime and payments of wages have been found. Fabric Scandinavien has been trying to address the issue of time pressure on the suppliers by spreading out production over the year through increasing the number of product deliveries. FWF has however received the feedback from one supplier that the lead times for the re-orders are too short, indicating that the effect of spreading production pressure might be lost by short lead times for these orders. No systematic evaluation has yet been made of if prices paid are enough for the suppliers to increase wages towards a living wage. From one supplier, FWF received the feedback that Fabric Scandinavien paid lower piece prices than other customers, but that this was compensated with bigger orders.

### *Requirements*

6. Fabric Scandinavien should investigate how suppliers' performance on improvements can be weighted in the buying decision to provide an incentive for suppliers to make improvements.

**Recommendations**

7. The ambition of Fabric Scandinavien to decrease pressure on suppliers by placing several smaller orders is good. However, the effort needs to be systematically evaluated taking feedback from supplier into consideration. FWF recommends investigating the root causes of overtime in cooperation with factories to assess if the new system of ordering by Fabric Scandinavien actually helps easing the pressure. This can be done by asking the factory to record incidents of overtime, their origin and severity for a period representative for an entire business year. By analysing the incidents of overtime recorded, the root causes of these incidents can be analysed. After this analysis, a step-by-step plan can be drafted by the factory to bring the amount of working hours down to legally allowed levels.

7. 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. 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. According to the factory register supplied for 2010, 100% of the suppliers have been covered in the monitoring system of Fabric Scandinavien. 97% of the suppliers had been audited. One supplier in Lithuania accounting for 3% of the volume had been covered through the low risk policy. Since Fabric Scandinavien has been affiliated for over three years the requirement is that all suppliers contributing to more than 2% of the value are audited, and at least 90% of the total production is audited (for high risk countries).

2. During 2009 and 2010 the suppliers of Weekday Brands in China received training on CSR to better be able to comply with requirements. During 2010 Fabric Scandinavien will follow up these by auditing the suppliers according to the *Full Audit Program (FAP)* that have been used to audit all suppliers to Weekday Brands. In general terms, the FAP audit process involves a visual inspection of the factory, management and worker interviews and document inspection. Fabric Scandinavien follows up the results of the audits and trainings actively and do announced as well as unannounced visits at the factories to make sure that they follow up the corrective action plans.

3. FWF did one verification audits at a supplier that had undergone a training and a FAP audit. According to the management these training courses have been highly appreciated. It was found that the FAP had yielded extensive results. Some issues had not been uncovered in the FAP, but noted by FWF, such as the lack of an ergonomic program and some missing safety equipment. It was also noted that the audit report did not include feedback from the supplier to Fabric Scandinavien on their purchasing practices. Also, wage information in the report does not include information on wage levels apart from if workers are not reaching minimum wage levels.

4. Fabric Scandinavien has not cooperated with other customers of manufacturers regarding monitoring and the execution of Corrective Action Plans at their suppliers.

**Recommendations**

3. Fabric Scandinavien should look into how more details regarding wages paid can be documented and this information can be used to discuss step wise improvement of wages to approach living wage.
3. The verification audit done by FWF was followed by a complaint being filed by a worker (see complaints procedure below). Often complaints are filed to FWF after audit. This because the worker interviewer has gained the trust of the workers. This also shows the need for Fabric Scandinavien to increase the number of interviews done, and if possible, include off site interviews, in order to find out, for example, attempts at audit fraud. FWF can assist in seeing how this can be possible to develop.
4. Although Fabric Scandinavien does not share suppliers with other FWF affiliates, it is still possible to contact other companies sourcing in the same factories to look into the possibility of cooperation with other customers at their suppliers regarding implementation of corrective action plans. In this way the company can improve its chances of creating change and decrease the risk of over auditing.

**3. Complaints procedure****Conclusions**

1. Fabric Scandinavien is sufficiently aware of the FWF complaints procedure and has a designated person to handle complaints.
2. A complaint was filed by a worker at a Chinese supplier in December 2010. The investigation that followed showed that juvenile workers were not registered properly, workers with no bank account received payments too late and management delayed payments to keep workers until Chinese new year. After FWF shared these findings with Fabric Scandinavien, their compliance staff visited the factory to make sure that payments were done correctly. FWF later called some of the workers to verify that payments had been done, which was confirmed by the workers. Fabric Scandinavian is now in the process to rectify the other non compliances found at this supplier. The factory is the same as was audited by FWF in December 2010 (see details below).

## 4. Improvement of labour conditions

### **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.*

1. During 2010, FWF carried out one audit at a supplier to Fabric Scandinavien in China. At this factory, FWF had previously done one audit in 2008. The factory had also undergone the training program of Fabric Scandinavien been audited according to the Full Audit Programme approach and four follow up visits had been done unannounced. The attached overview show the original FWF audit from 2008, the results from the latest Fabric Scandinavien follow up audit in 2010 before the FWF audit the same year.

At the FWF factory audit in 2010, the team could verify that improvements had been done in routines for social compliance and documentation. There is now also a workers committee and a grievance system for the workers. It was noted that both the grievance system and workers committee need to be improved, something that Fabric Scandinavien had also noted in their audit the same year.

At the first audit in 2008, two case of child labour was found. Both at the Fabric Scandinavien audit and the FWF audit in 2010 it was noted that there were no cases of child labour. There were still juvenile workers in the factory that were not working in accordance with the law. The factory did try to cover up this (see complaint above), which show that there are still issues to be overcome regarding transparency.

Further improvements noted are that workers are now given annual leave, most of the health and safety issues were fixed and several routines and policies had been established. Issues that remained to be solved included doing payments on time, over time, insurances and payment of overtime in accordance with the law. According to Fabric Scandinavien own rating, the factory received a Code of Conduct Index of 58% and a Management system Index of 61%.

### **Requirements**

1. It is very positive that many of the points in the corrective action plan have been corrected since the original audit in 2008. Several important points remain to be corrected, most urgently on correct compensation of overtime hours. Fabric Scandinavien, being an important client, should be able to assure that overtime hours are paid in accordance with the legal provisions. Fabric Scandinavien should provide FWF with a time plan for when the supplier will be in line with legal requirements regarding overtime.

**Recommendations**

1. It is recommended to arrange additional factory trainings that aim at strengthening social dialogue on factory level focusing on the workers in the factory. As noticed also in the audits by Fabric Scandinavien, the present communication systems in the factory are to a large extent not working because of workers being unaware of these. FWF is in contact with local NGOs that are active in the region where the factory is located. One of these NGOs could carry out a factory training that aims at strengthening social dialogue between management and workers. As part of the training workers would learn how to organise a free ballot to elect representatives, and how to communicate effectively with management.

**5. Training and capacity building****Conclusions**

1. The CSR responsible at Fabric Scandinavien informs shop staff and new members of the management team about the FWF affiliation.
2. Agents have been informed about FWF membership and the implementation of the Code of Labour Practices.
3. All manufacturers have been informed about FWF membership and the implementation of the Code of Labour Practices through the signing of the code and filling out the questionnaire. All present suppliers, except one, have also been informed through the auditing done by Fabric Scandinavien. On top of that, Fabric Scandinavien has done a training program for factory management at the suppliers in China.
4. Workers are informed about FWF membership and the implementation of the Code of Labour Practices through posting the information sheet on the wall in the factory.

**Recommendations**

3. It is very positive the Fabric Scandinavien has trained factory management in China. In FWF's experience it is also of crucial importance to involve the workers. Therefore Fabric Scandinavien could as a next step look into the possibility of training workers at key suppliers in China. FWF can provide assistance in this.

## 6. Information management

### *Conclusions*

1. The CSR responsible is in charge of keeping the supplier register updated.
2. The supplier register submitted to FWF contained addresses to all suppliers and the percentages showing the relative importance of the suppliers to Fabric Scandinavien. The value of the orders for each supplier was not included in the factory register (column "FOB amount").
3. Information regarding the implementation of the Code of Labour practices is organised through H&Ms format for auditing and follow up of auditing.

### *Requirements*

2. The supplier register submitted should contain FOB amount for each supplier as this is used by FWF when verifying that the supplier register is correctly filled out.

## 7. Transparency

### *Conclusions*

1. Fabric Scandinavien informs the public about its FWF membership on the homepages of its different brands. The section on the homepage entitled "Values and CSR" covers ambitions as well as details on what FWF affiliation entails. From 2011 and onwards, only Cheap Monday / Weekday Brands will carry information about FWF as it is the only entity of Fabric Scandinavien affiliated to FWF.
2. The annual social report of the previous year has been received by FWF and posted on the websites of Cheap Monday.

### *Recommendations*

2. FWF is developing several different tools to help their member companies communicate about their FWF affiliation to customers and the public. Fabric Scandinavien can contact FWF to receive advice and tools on communication issues regarding FWF if the company would like to communicate more on CSR.

## 8. Management system evaluation and improvement

### *Conclusions*

1. Fabric Scandinavien evaluates how effective the CSR work is and the work with implementing the code of labour practices twice a year. Fabric Scandinavien does include feedback from manufacturers where this is available and relevant to the

evaluation. Feedback from suppliers is however not gathered in a systematic way.

### ***Recommendations***

1. Evaluating to what extent the chosen approach to improve working conditions is effective is an important part of being able to reach the goals as a FWF member and it is therefore positive that Fabric Scandinavien continuously evaluates the efforts. This evaluation needs to assess which improvements were successfully implemented in factories (and which were not), if communication with factories on this issue goes smooth, whether the chosen approach is cost efficient and what feedback has been received from suppliers on both code implementation and purchasing practices of Fabric Scandinavien. For the last point it is often needed to actively ask suppliers for feedback as many are reluctant to raise some of the issues.

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

### ***Conclusions***

1. The work plan for the current year has been received by FWF.
2. Membership fee for the previous year has been paid.

## **10. Recommendations to FWF**

### ***Recommendations***

1. It could be good to divide workshops at the members' day according to type of company, i.e. work wear or fashion.
3. Communication regarding complaints should be clearer. Complaint reports need to include full information regarding the response of the member company as well to show what effort have been make.

## Annex. Improvement of labour conditions: summary of most important findings

|   | Source: FWF audit 23-24 September 2008   | Source: Fabric Scandinavian follow up audit 17 November 2010   | Source: FWF audit 29-30 November 2010  |
|---|--|--|--|
| <b>Workers interviews</b>   | 10 workers were interviewed prior to the date of the audit. In addition, an hour-long meeting was held with 20 randomly selected workers of the factory. | Not documented   | 18 workers were interviewed prior to the date of the audit. In addition, an hour-long meeting was held with 30 randomly selected workers of the factory.   |
| <b>Documentation</b>  | Not all the workers' personal files and time records were available for the audit team.  | Covered under each code element below.   | Management provided documentation asked for where available.   |
| <b>Sourcing practices (price, leadtime, quality requirements)</b> | Not covered in this audit.   | Not covered in audit report  | According to the management, Fabric Scandinavien's order price is below the factory's other clients and rush orders that do not give enough lead time to arrange the production schedule have been placed. |
| <b>Monitoring system of FWF member company</b>                    | No FWF Code of Labour Practices had been provided to the factory. Management and workers were not aware of FWF Code of Labour Practices.                 | Not covered in audit report  | Fabric Scandinavien has a coherent approach to monitor and remediate working conditions of the factory.  |
| <b>Management system factory to improve labour standards</b>      | Factory has not set up a system to monitor the social compliance status of their subcontractor.  | Audit report appoints responsible persons in the factory to follow up CAP.   | There is an internal social compliance system to improve the working conditions in the factory, but workers do not know who the responsible person for factory social compliance program is.               |
| <b>Communication, consultation and grievance procedure</b>        | No grievance system was available for workers to report their concerns and complaints. Besides, no suggestion box was provided within the facility.      | New workers are not aware of the grievance system and how it is used. The system lacks feedback. There is no record of who and when the suggestion box is checked. | Workers are not informed about the PRC Labour Law. The grievance reporting channel is not working properly.  |
| <b>Employment is freely chosen</b>                                | No findings  | No findings  | No findings  |
| <b>No discrimination in employment</b>                            | No findings  | Maternity leave is not granted according to the law.   | No findings  |

|  |  |   |   |
|--|--|---|---|
| <b>No exploitation of child labour</b>                               | Two cases of child workers and several cases of juvenile workers now working in accordance with legislation.   | Juvenile workers are not working under legal conditions.  | Juvenile workers not registered properly.   |
| <b>Freedom of Association and the Right to Collective Bargaining</b> | There is no worker committee within factory.   | The dialogue system lacks a separate policy signed by the management. The system lacks communication of the result to the workers. The system lacks routines for regular meeting.   | There are worker's representatives elected democratically. The system is however not functioning properly as representatives do not communicate enough with the factory on labour issues and the management does not give enough support to the workers' representatives. |
| <b>Payment of a Living Wage</b>                                      | Audit team could not appropriately verify whether facility paid overtime premium as required by law. None of the workers received overtime payments for Saturday mornings. None of the piece rate workers received paid leave for the legal holiday. | Overtime compensation is not compensation according to law for monthly workers. Overtime compensation is not according to the legal requirements for the piece rate workers. Sick leave is not compensated according to the law. Annual leave is not granted according to the law. Additional leaves stipulated by the law are not granted to the workers. Basic salary is not reaching legal minimum wage. | Wages comply with legislation for regular working hours but are below living wage estimated by local stakeholders. Workers are not sufficiently compensated for overtime. All piece-rate production workers are not paid for statutory holidays.                          |
| <b>No excessive working hours</b>                                    | Factory does not maintain complete time records. Workers' monthly overtime exceeded the legal limits, some workers reaching 75.5 hours of overtime in one month. Workers did not have at least one day off per week.                                 | Regular working hours are exceeding legal limits. Monthly overtime is exceeding legal limits.   | Factory does not maintain complete time records. Monthly overtime hours exceed the legal limit, weekly working hours exceed 60 hours and workers do not receive at least one day off in a 7-day period.   |
| <b>Occupational health and safety</b>                                | Remarks on fire safety, missing machine safety equipment and no ergonomic program.   | Remarks on fire safety. Hazardous waste is not properly disposed of.  | Remarks on fire safety, missing machine safety equipment and no ergonomic program.  |
| <b>Legally binding employment relationship</b>                       | Not all workers covered by required insurances. No worker was covered with child-bearing insurance.  | Not all workers are covered in national insurance. According to the audit follow up at this date, contracts had been corrected to include all relevant areas.   | Not all workers covered by required insurances. The employment contracts do not include mandatory clauses on working hours, rest and vacation; and remuneration.  |