



Fair Wear Foundation

## Management system audit report

### Fabric Scandinavien

2009-12-14

*FWF affiliate since: 2007-09-01*

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

A: Database FWF

B: Annual report and work plan

C: Archived documents

D: Adam Friberg (Production manager and member of the board)

E: Irene Hägglund (CSR / contact person for FWF)

F: Linda Friberg (Buying manager Monki)

Audit conducted by:

Henrik Lindholm



Fair Wear Foundation

*Index*

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



## 1. Introduction

In December, 2009 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 2009. 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, recommendations and an annex which includes detailed findings. If FWF concludes that the management system needs improvement to ensure effective implementation of the Code of Labour Practices, a requirement for improvement is formulated. The implementation of required improvements is mandatory under FWF membership. In addition, FWF formulates recommendations to further support 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 year 2009. 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.

Fabric Scandinavien has commented on the content of the draft report after receiving the draft report. Subsequently the report has been made definitive.



## 2. Executive summary

During Fabric Scandinavien's first year of FWF affiliation the focus of the work was on auditing the suppliers in China. During year two, Fabric Scandinavien shifted focus to strengthening suppliers' ability to cope with CSR-issues themselves. A training program was developed and implemented at one third of the supplier base. The first two years of affiliation has also to a large extent been used to adjusting to structural changes in the company, in part caused by H&M buying a majority share of the company.

Fabric Scandinavien owns several fashion brands including Cheap Monday, Monki and MTWTFSS. The products of these brands are sourced through three different entities of Fabric Scandinavien: Monki, Weekday and Weekday Brands. The factories producing for Weekday and Weekday Brands are covered by independent verification through the affiliation to FWF. The sourcing by Monki should be covered by independent verification on factory level by Fair Labour Association (FLA) of which Fabric Scandinavien's owner H&M is an affiliate. It is also the mandate of FWF to verify the total management system for social responsibility of all entities of Fabric Scandinavien.

Fabric Scandinavien had covered 65% of the supplier base of Weekday and Weekday Brands with audits within two years which is more than the 60% required for two years membership.

Fabric Scandinavien has put a lot of effort on awareness raising within the company. Originally one person worked full time with CSR-issues including implementation of FWF affiliation. More people have become involved in this work over time, resources from H&M's compliance department have also been used and now one auditor in China will be engaged in doing audits and following up corrective action plans.

At the MSA at the head office in Gothenburg not all documents could be inspected since the management actually is done from three different locations, Gothenburg, Tranås and Stockholm. Furthermore issues regarding sourcing are to a large extent handled at the Puls trading office in China. Therefore, next year's MSA will give extra attention to verifying the supplier list and other documents.

## 3. Positive findings

<b>Conclusions</b>
1. Fabric Scandinavien has identified lack of knowledge at factory management level as a bottleneck to factory improvements after their first audits. As a response to this Fabric Scandinavien has developed a training program for their suppliers in China that is now being implemented.
2. The discussion about CSR issues is well imbedded in Fabric Scandinavien and the company has committed substantial human resources to implementing the FWF code of labour practices.
3. Fabric Scandinavien has critically assessed its own work on CSR issues including the way audits are done to achieve better results. One of the outcomes of this is that all suppliers will undergo the full audit program developed by H&M during 2010.

## 4. Sourcing

<i>Conclusions</i>
1. There are three different sourcing entities at Fabric Scandinavien: Monki, Weekday and Weekday Brands (Cheap Monday). For Monki, all sourcing is done by H&M's buying offices (Puls trading) in China, Turkey and Bangladesh. The Turkey office also source from Lithuania. For Weekday and Weekday brands the sourcing is done via staff at H&M's office in Hong Kong (Puls trading) dedicated to doing sourcing for Fabric Scandinavien.
2. All three sourcing entities have their own way of sourcing. There is no written sourcing policy covering all sections of Fabric Scandinavien.
3. Fabric Scandinavien is working on how to spread out production over the year by having more product deliveries. The company wants to be able to work more with quick response deliveries in the future.
4. For sourcing done by Monki, there is no direct contact with the factories as this is mostly done through H&M's sourcing offices (Puls Trading). The Puls Trading offices work as service partners for Monki. The sourcing of Monki should be covered by independent verification through H&M's affiliation to FLA.
5. The sourcing of Weekday and Weekday Brands is done by staff at Puls Trading dedicated to working with the sourcing of Weekday Brands. The team at Puls Trading doing the sourcing for Weekday and Weekday Brands is the staff that previously worked directly for Fabric Scandinavien doing the sourcing for Weekday and Weekday Brands before the company was bought by H&M. The sourcing of Weekday and Weekday Brands is covered by independent verification through Fabric Scandinavien's affiliation to FWF.
6. A memorandum of understanding between Fabric Scandinavien, FWF, H&M and FLA has been drafted to make sure the whole company and all suppliers are covered by independent verification.
7. 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.
8. Working conditions and improvements made in the factories are not systematically taken into considerations when deciding how to place orders among existing suppliers (i.e. those that live up to minimum standards and have signed the code) for all sections of Fabric Scandinavien.
9. Fabric Scandinavien has not looked into how delivery times and pricing contributes to excessive overtime and issues regarding payments of wages and overtime. However, there is awareness within the company that these factors play a role in the implementation of the Code of Labour Practices.
10. Fabric Scandinavien mainly wants to reduce lead times by having a more efficient handling of orders in Sweden. This has already succeeded to some extent.



<b>Requirements</b>
6. Fabric Scandinavien should together with FWF finalise the memorandum of understanding to make sure all suppliers and sourcing activities are covered by independent verification.

<b>Recommendations</b>
2. A written sourcing policy / strategy that takes code implementation into account can give buyers a clearer incentive and mandate to take social aspects into account.
8. Fabric Scandinavien could look into how code aspects can be taken into account in sourcing decisions in all parts of the company so that good code compliance is rewarded by, for example, more orders or a longer cooperation.

## 5. Coherent system for monitoring and remediation

<b>Conclusions</b>
1. According to the factory register supplied for 2009, 65% of the suppliers covered by the affiliation to FWF have been audited. Since Fabric Scandinavien has been affiliated for two years and three months, this is within the requirements for FWF affiliation.
2. During 2009 Fabric Scandinavien has looked into how H&M's <i>Full Audit Program</i> (FAP) can be adjusted to FWF demands. During 2010 audits according to this methodology will be carried out at all suppliers to Weekday Brands and Weekday.
3. The corrective action plans resulting from the audits so far conducted at suppliers to Weekday Brands and Weekday have been followed up through a CSR training program for the factory management. This because it was judged that the factory management did not have enough knowledge to follow up the audits without training. Up till now, 70% of the suppliers of Weekday Brands and Weekday have undergone such training. During 2010 Fabric Scandinavien will follow up theses factory audits and trainings to see if this method has yielded good results.
4. Fabric Scandinavien has not cooperated with other customers of manufacturers regarding monitoring and the execution of Corrective Action Plans at their suppliers.
5. Monki's production goes completely through H&M. H&M is also responsible for following up the code compliance at Monki's suppliers and report to Fabric Scandinavien. H&M's production in China and Turkey is covered by independent verification through H&M's affiliation to FLA. However, this does not cover Monki's production in Lithuania and Bangladesh.

<b>Requirements</b>
5. Fabric Scandinavien should make sure that production in Lithuania and Bangladesh is



covered by independent verification either through FLA or FWF.

5. Fabric Scandinavien should make sure that they are informed about results of factory audits at Monki's suppliers (for example the grading they have received in H&M audits) from H&M as well as details regarding supplier relationship (for example length of business relationship). If this is done, Monki and Fabric Scandinavien can also keep track of level of compliance and that the ambition to have long business relationships is followed.

### ***Recommendations***

4. Fabric Scandinavien could 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.

## **6. Complaints procedure**

### ***Conclusions***

1. Fabric Scandinavien has a designated person to handle complaints of workers.
2. Fabric Scandinavien has not received any complaints submitted by workers during 2009.

## **7. Improvement of labour conditions**

### ***Conclusions***

1. That Corrective Action Plans have been executed has not yet been systematically checked by Fabric Scandinavien. Fabric Scandinavien has chosen to focus on management trainings in factories to ensure commitment and make sure management has the knowhow on how to solve the problems faced (see Coherent system for monitoring and remediation above).
2. In China seven factories were audited. The audits showed that the FWF Code of Labour Practices is often not posted in the factory and management as well as workers are often unaware of the FWF Code of Labour Practices. Factories employing more than 50 workers lack an independent union branch or an independent workers committee which is run by workers without management involvement. A minority of factories complies with labour legislation on wage payments. Leave benefits tend not to comply with Chinese labour legislation. In the majority of factories excessive overtime was found. Factories did not have ergonomic programs. To a varying degree points for improvements were found with regard to fire, chemical and machine safety. In most factories a significant share of workers were not covered by social insurance.
3. At one factory audited in China in 2008 a new FWF factory audit was done in 2009 to



see what parts of the corrective action plan had been implemented. At the first audit one case of child labour was found and the factory lacked a system to make sure no children were hired. At the second audit in 2009 the issues regarding child labour had been resolved. Furthermore, workers were now given annual leave, most of the health and safety issues were fixed and several routines and policies had been established. Also, a workers' committee had been set up, unfortunately this was not working efficiently. Payments of wages were still being done too late, there were still issues regarding over time and the documentation. The FWF Code of Labour Practices was still not posted in the factory and workers were unaware of it. There was also a system for fining workers.

### **Requirements**

1. During 2010, Fabric Scandinavien should monitor that corrective action plans from factory audit and management trainings have lead to real improvements at factory floor level.

3. It is very positive that several of the points in the corrective action plan have been corrected since the original audit in 2008. However, several important points remain to be corrected. Fabric Scandinavien should be able to report how progress has been made on outstanding issues at the factory re-audited at next MSA.

### **Recommendations**

3. One remaining part in the corrective action plan is regarding correct documentation of working times and disclosure of time worked. This might be an issue to resolve through the management trainings that Fabric Scandinavien has implemented at other factories. Another important issue is the functioning of the worker committee. Here a worker training might be a way to move this forward.

## **8. 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 are informed about FWF membership and the implementation of the Code of Labour Practices through the signing of the code and filling out the questionnaire.

4. Fabric Scandinavien has developed and implemented a training program for factory management (see Coherent system for monitoring and remediation above). This has been implemented in 70% of the supplier base of Weekday Brands and Weekday.



5. 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. However the information sheet has not been posted in several of the factories audited. The new CSR staff in Hong Kong will follow up that this is done correctly during 2010.

**Requirements**

5. During 2010 Fabric Scandinavien should make sure the information sheet for workers is posted at all suppliers.

**Recommendations**

4. 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.

## 9. Information management

**Conclusions**

1. The CSR responsible is in charge of keeping the supplier register updated.

2. The supplier register submitted to FWF did not contain correct addresses to all suppliers and the percentages showing the relative importance of suppliers was not correct.

3. Information regarding the implementation of the Code of Labour practices is kept on the computer of the CSR responsible and in files with print outs of relevant documents. The information is shared with the sourcing department at presentations after the audits. Apart from these presentations there is no systematic way of including information on code compliance with sourcing information.

**Requirements**

2. The supplier register submitted must contain the correct contact details to all suppliers / production sites as well as correct estimates of relative importance.

**Recommendations**

3. Making sure that people involved in sourcing decisions easily can find and access documentation on how well the factories perform on code issues makes it easier for

them to engage in the CSR-work.

## 10. Transparency

### *Conclusions*

1. Fabric Scandinavien owns several brands and also has different store concepts. This means that consumers encounter the products in different places under different names. For example, in Monki stores only Monki branded products are sold, in Weekday stores Cheap Monday, MTWTFSS, second hand clothes are sold as well as collaborations with designers and “store made” products. Cheap Monday jeans are also sold in many other stores not connected to Fabric Scandinavien. Several of the brands and stores have their own homepages.

2. Fabric Scandinavien informs the public about its FWF membership on each on all 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.

3. The annual social report of the previous year has been received and approved by FWF. However, it has not been placed on any of the websites of Fabric Scandinavien.

### *Requirements*

2. The annual social report of Fabric Scandinavien should be made available online.

## 11. 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.

2. Fabric Scandinavien receives feedback from manufacturers that to some extent is used to evaluate the implementation of the Code of Labour practices.

### *Recommendations*

2. Collect feedback from suppliers in a systematic way in order to make a full analysis of buyer supplier relationship in the evaluation of the CSR-work.



## 12. Basic requirements of FWF membership

<i>Conclusions</i>
1. The final version of the work plan for the current year was received in August 2009 due to restructuring at Fabric Scandinavien.
2. Membership fee for the previous year has been paid.

## 13. Recommendations to FWF

<i>Recommendations</i>
1. FWF should look into how it can work together with other initiatives, for example BSCI, at factory level regarding how to best achieve improvements.
2. It would be good if Swedish affiliates can meet to exchange experience.
3. Divide workshop at members' day according to type of company, i.e. work wear or fashion.
4. A lot of work to fill out supplier register, maybe it could be less complicated and restricted to only the really important information.
5. FWF could set up a mentorship program in which more experienced persons among the affiliated companies provide guidance on CSR-issues to new designers and small brands trying to establish themselves.

<b>13.4 Improvement of labour conditions</b>		
	<b>Source: Summary of most important findings from seven factory audits during 2008-2009 done with FWF audit teams on behalf of Fabric Scandinavien.</b>	<b>Source: Summary of most important findings from one audit (July 2009) on behalf of FWF to verify improvements in a factory that has been audited on behalf of Fabric Scandinavien in 2008.</b>
<b>Documentation</b>	At all factories inspected there was missing documentation, ranging from missing payrolls to maternity leave registers.	Several registers missing at first audit had now been established.
<b>Sourcing practices (price, lead-time, quality requirements)</b>	Not part of these audits.	Management commented that the communication between the factory and Fabric Scandinavien is weak.
<b>Monitoring system of FWF member company</b>	Not part of these audits.	The factory said it has no direct communications with Fabric Scandinavien on social compliance or corrective action plans.
<b>Management system factory to improve labour standards</b>	The FWF Code of Labour Practices was not posted in any of the factories. At five factories subcontractors were not informed about the code, monitored or the buyer was not properly informed about the use of subcontractors.	The factory has still not posted FWF code in the factory.
<b>Communication, consultation and grievance procedure</b>	In the majority of factories there was no formal channel to ascertain good communication between management and workers in case of grievances. At none of the factories were there a functioning workers' committee.	A workers' committee had been established since first audit. However, workers didn't understand the role of the workers' committee .
<b>Employment is freely chosen</b>	No non-compliances found	Workers will be fined for various mistakes, like "forget to switch off machine", "forget to clean and cover sewing machine" etc.
<b>No discrimination in employment</b>	No non-compliances found	Female workers are not aware of the maternity leave policy.
<b>No exploitation of child labour</b>	At two of the factories cases of child labour were found. At a further two factories juvenile workers were not properly registers and at one juvenile workers were doing over time.	At the first audit, one child workers was found and 9 unregistered juvenile workers were found. By the time of the second audits, all issues regarding child labour and juvenile workers had been solved.

<b>Freedom of Association and the Right to Collective Bargaining</b>	At none of the factories there was a functioning trade union which is run by workers without management involvement. Workers were also generally not aware of their rights to organise.	No non-compliances found
<b>Payment of a Living Wage</b>	Six of the factories received remarks on payments of wages. At two factories some workers received wages below legal minimum. At four factories the correct overtime wages were not paid. At one factory records were not good enough to verify if correct wages were paid.	The monthly wages are still not being played on time. However, workers are now receiving their paid annual leave.
<b>No excessive working hours</b>	All factories except one received remarks for actual working hours. It was common with excessive overtime (more than 36 hours per month up to over 100 hours). Often working hours exceed 60 hours as required by FWF. Many workers also work too many consecutive days.	During the second audit, the audit team found that the time records were not correct, so total working times could not be assessed.
<b>Occupational health and safety</b>	All factories received fire safety remarks. Majority of factories lacked ergonomic programs. Several of the factories also had some missing personal safety equipment. In many factories the workers were not trained for health & safety issues.	Most of the points on health and safety had been improved since the first audit.
<b>Legally binding employment relationship</b>	At all factories there were cases of missing insurances, especially pension, unemployment & medical insurances, as well as maternity insurance.	At second audit, all workers were still not covered all relevant insurances. The working contracts signed contained errors that needed to be corrected.
<b>Special remarks</b>	None	None