



Fair Wear Foundation

Management system audit report

hessnatur

2009-09-11

FWF affiliated since: 2005

Sources of information

A: Database FWF

B: Annual report and work plan

C: Archived documents

D: Rolf Heimann, Head of the department Innovation & Ecology and member of the board of IVN

E: Stefanie Karl, Project Manager CSR

F: Marcus Salb, Head of Purchasing

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G: Michael Krause, responsible for editorial contents in hessnatur's brand communication

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Fair Wear Foundation

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1. Introduction

In September 2009, Fair Wear Foundation (FWF) conducted a management system audit (MSA) at hessnatur. The MSA is a tool for FWF to verify that hessnatur 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 hessnatur in order to assess the key issues of interest. During the MSA, employees of hessnatur 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 hessnatur 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 hessnatur that have been identified as key areas of interest for year. 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.

hessnatur has commented on the content of a draft version of this report. FWF publishes the conclusions, requirements and recommendations of all MSAs on www.fairwear.org.



2. Executive summary

hessnatur has been affiliated to FWF for four years. During the last year, the company has taken several important steps to improve their work with securing good working conditions in the supply chain. hessnatur has further developed their format for their own internal factory audits as well as a database to keep track of corrective actions at production site level.

hessnatur has a sourcing system by which the suppliers' performance on social standards carries as much weight as the performance on technical and environmental areas when suppliers are graded. This grading influences how orders are placed and shows that hessnatur has commitment to source from suppliers with a good performance on social standards. hessnatur also has an ambitious program to inform and educate staff and customers regarding social issues in the supply chain.

hessnatur now needs to step up the monitoring activities to cover a larger part of their supply chain with audits of working conditions. hessnatur should also look at how the internal auditing system of factories can be developed to include more sources of information, especially from workers and local stakeholders. To improve dialogue with production sites, hessnatur needs to make sure that information and dialogue regarding improvements reach production site (factory) level at all their suppliers. Important information and feedback can be lost when going through intermediaries.

One important challenge for hessnatur for 2010 is to find a way to estimate the value of production at production site level and how much of their turnover in garments have been covered by audit activities. Structural issues in the ordering system of hessnatur makes this difficult, but FWF is open for assisting in the development of this.

3. Positive findings

Conclusions
1. hessnatur has developed a database that helps the company keep track of corrective action plans. The system contains recommendations from their own factory audits as well as corrective actions from FWF's factory audits and other organisations' audits.
2. hessnatur systematically follows up the corrective action plans in audit reports that they receive from suppliers.
3. hessnatur has a sourcing system by which the suppliers' performance on social standards carries as much weight as the performance on technical and environmental areas when suppliers are graded.
4. hessnatur is developing a supplier manual that will give their suppliers substantial advice and help with code implementation.
5. hessnatur engages in dialogue with suppliers on how corrective actions can be realised, looking at both their own role as buyer as well as the role of the supplier.
6. hessnatur actively promotes awareness about FWF and social issues in the production of garments and textiles towards own employees and its customers.

4. Sourcing

Conclusions
<p>1. Sourcing is often done through intermediaries who hessnatur refer to as suppliers. These intermediaries might use several different production sites (what FWF refers to as suppliers). The intermediaries do not want the buyers at hessnatur to know the exact location of the production sites, since hessnatur then could buy straight from the production site. hessnatur has now convinced the suppliers to disclose the production site addresses to hessnatur's department Innovation and Ecology on the condition that the buyers at hessnatur cannot access this information. The information in the database on production site level shows how many pieces are produced where, but not the value of how much is produced at a specific production site. hessnatur sees difficulties in finding out the value of production at production site level since payments are done to the intermediaries who might have several production sites.</p>
<p>2. hessnatur has 121 suppliers of sewn products and these suppliers have around 162 production sites in total.</p>
<p>3. The communication with production sites is in many cases done through the intermediaries. This is especially the case when the supplier, according to the hessnatur use of the word, is not the same as the production site. In some cases, the factory management at production site might not have a clear idea about the fact that they are producing for hessnatur. This can create confusion during factory audits or in the follow up of corrective action plans.</p>
<p>4. All textile and garment production done for hessnatur is internal production (according to FWF definition). Some shoes and toys sold in the catalogue fall under external production.</p>
<p>5. Today there is no written sourcing policy, but there is an ambition to consolidate the supply chain and in the work plan of hessnatur, there is a stated ambition to have long-term relations with suppliers.</p>
<p>6. According to hessnatur, delivery times are generous and suppliers have not raised tight lead times as an issue when asked about this during the hessnatur internal factory audits.</p>
<p>7. Working conditions is one criterion in the selection of new suppliers.</p>
<p>8. Two times a year suppliers are ranked as A, B or C suppliers, which will influence how many orders the suppliers get. The grade is given by combining the grades given to the supplier by the buyers, the technicians, persons responsible for environment and the person responsible for working condition in the supply chain. Working conditions carries as much weight as the other issues in this grading.</p>

Requirements
<p>1. FWF needs to be able to tell how much of the supply chain that is being monitored</p>

regarding working conditions by hessnatur. FWF has a commitment to its stakeholders to assure that the level of monitoring of affiliates is at a high level. hessnatur should in cooperation with FWF develop a way to make a realistic estimate of how much of the supply chain is covered by factory audits. In a first step, FWF suggests that hessnatur provides an estimate of how accurately their present database can estimate how much of the turnover in garments have been covered by audit activities.

5. Coherent system for monitoring and remediation

Conclusions

1. The percentage of hessnatur's turnover that has been audited cannot be calculated precisely, since it is not possible for hessnatur to register exactly how much is produced at which supplier site.

2. hessnatur has developed a method on how to work on monitoring the supply chain that is implemented in a systematic way. All suppliers are informed about the code through the *hessnatur's suppliers' guideline* that is sent out together with the code of labour practices and questionnaire that is signed and returned. hessnatur then audit the working conditions on factory floor at production sites where this is deemed necessary, for example in high-risk countries. The audits are hessnatur's own audits (the hessnatur screens), audits from consultants or FWF factory audits depending on type of factory and location.

3. FWF teams have carried out 21 factory audits at 15 production sites of hessnatur.

4. hessnatur has carried out 27 hessnatur screens at the production sites in Turkey (some of them have been follow up audits at the same production site that was audited before).

5. The hessnatur screen covers the elements of the FWF code of labour practices and have an extensive list of points that is either checked or discussed with management. The hessnatur screen is mostly done by Stefanie Karl from the department Innovation and Ecology together with an interpreter when needed.

6. The hessnatur screen relies mainly on information from management, documents and visual inspection.

7. If possible, it is the intention of hessnatur to follow FWF audits as observers in a country to learn about the situation, before starting to conduct their own audits (the hessnatur screen). So far, this has not happened because hessnatur received incorrect information from FWF about the auditing capacity of the FWF teams.

8. The corrective action plans resulting from the hessnatur screens are systematically agreed upon, followed up and reported on.

9. FWF has not yet had the opportunity to verify the quality of the hessnatur screen by conducting a FWF factory audit at a production site where hessnatur has done a hessnatur screen.

10. So far, hessnatur has not seen opportunities to cooperate with other customers of



manufacturers regarding monitoring and the execution of Corrective Action Plans, but the company is positive to cooperating with other FWF affiliates and open to sharing audit outcomes with other companies.

Requirements

1. hessnatur needs to be able to do a realistic estimate of how much of supply chain is monitored (see requirement Sourcing).
2. hessnatur has a clear system for monitoring code compliance in the supply chain and does so in a systematic way, however the company should set target for how much of their supply chain will be covered by audits (hessnatur screens, FWF audits or other audits).

Recommendations

5, 6. FWF is positive that hessnatur has developed a system for audits done by hessnatur staff and that this system is being updated as hessnatur learns more. In some parts, the hessnatur screens do not meet the quality requirements as described in the FWF manual for affiliates (page 14). hessnatur should look into those requirements to see how their audits gradually can be brought into line with these requirements. The hessnatur screen, although exhaustive in the issues it covers, relies mainly on information from management, documents and visual inspection. FWF’s ambition is that affiliated companies should use all five sources of information (including workers interviews and information from local stakeholders) in their audits; hessnatur should look into how they can incorporate information from local stakeholders and workers to get a fuller picture of the situation at the production sites. Even if worker interviews can’t be made outside the factory, individual worker interviews and focus group interviews can be done in the factory. Information from local stakeholder is now included through the FWF country studies, however, these do not cover all regions and are not constantly updated, therefore interviewing local stakeholder organisations when visiting a factory can be a good compliment. Especially when it is not possible to do off site interviews with workers.

6. Complaints procedure

Conclusions

1. hessnatur has a designated person to handle complaints of workers.
2. hessnatur has actively spread the information sheet for workers to suppliers and production sites.
3. hessnatur has not received any complaints in 2009.

7. Improvement of labour conditions

Conclusions

1. In September 2009, hessnatur had done 25 factory audits with FWF audit teams at 18 factories between 2004 and 2009. The analysis below focuses on the factory audits done in 2008 and 2009 by FWF teams as well as improvements compared to earlier level of compliance in the factories. Based on results of audits carried out by FWF teams, FWF has drawn up an overview of labour conditions in factories. The overview focuses on the factory audits from the 2009 and 2008 and improvements compared to earlier situation. The overview only looks at audits conducted by FWF audit teams and not those done by hessnatur or other parties. The overview is annexed to this report.

2. In China, eleven audits have been done at six factories. The first round of audits (2005-2008) showed that the code was generally not posted in the factories and that management and workers were often unaware of the code. Factories often lacked an independent union branch or a workers committee run by workers without management involvement. A minority of factories complied with labour legislation on wage payments and working hours. It was also found that factories did not have ergonomic programs. Points for improvements were also found with regard to fire, chemical and machine safety. In most factories a significant share of workers were not covered by social insurance and/ or did not have a formal labour contract.

3. Four of the factories audited in China between 2005 and 2008 were audited a second time by a FWF team in 2009. This makes it possible for FWF to assess if actual improvements have been made since the first audit at the factory. The second round of audits showed that several improvements have been made in the factories. Common improvements were better documentation and being more transparent on working hours. However, further efforts to realise improvements remain necessary. Workers often remain poorly aware of the code of labour practices. At one factory a workers committee had been established after the initial audit, but unfortunately does not work properly. There were improvements in the payments of wages and benefits, however three of the four factories still had remarks on this aspect. Improvements had also been made regarding working hours, however, all factories still had points for improvements regarding working hours. A significant number of improvement issues on health and safety were found. At two of the factories audited hessnatur has arranged a workers' training through FWF conducted by independent local organisations.

4. In Macedonia, a total of four audits have been performed. Three of these audits during 2008 and 2009. During these audits mostly issues regarding health and safety such as fire safety drills and ergonomics, were pointed out by the audit team. In two of these factories the information sheet for workers were not posted on the wall.

5. In Poland, two factories were audited in 2004. Main result concern registration of working hours, fixed time contracts and some points for improvements regarding health and safety. During the last years, FWF has not had an audit team in place in Poland, this is also why no full FWF factory audit has been done to follow up improvements.

6. In Romania two factories have been audited in 2006 and 2007. One of these factories were again audited in 2008. At the factory re-audited in 2008, several important improvements had been made, most importantly a collective bargaining agreement had now been signed and there was now a functioning trade union.



7. In Ukraine two factory audits were done in 2007. There were remarks on missing information sheet for workers, and lacking awareness about code among workers. Both factories also got remarks on overtime as well as some health and safety aspects.

8. Training and capacity building

Conclusions

1. Staff of hessnatur is given general information about FWF affiliation and the implementation of the Code of Labour Practices through the staff meetings. More in-depth training is provided for new employees, also old employees can get a brush up one day training course. Also in the training for call centres and shop staff before new catalogues are released information about FWF is included.

2. Special training modules are developed for the buying department, Marketing and PR departments as well as for those involved directly in the execution of monitoring activities.

3. hessnatur has three agents and these have been informed about the implementation of the Code of Labour Practices and are actively being engaged in monitoring the implementation of the code of labour practices.

4. Suppliers are informed about FWF membership through the suppliers' guidelines that is sent out by hessnatur and updated regularly. Every production site has to confirm in writing to hessnatur that the code of conduct is displayed at the production site for workers to see. Further information is given to production sites when visited by hessnatur or on demand.

5. Workers are informed by the information sheet for workers that is sent out to all production sites.

Requirements

4. Although hessnatur has a system to assure that production sites are informed that they produce for hessnatur and the Code of Labour Practices, this is not always the case (see Improvements of labour conditions above). hessnatur needs to make sure all production sites are properly informed.

9. Information management

Conclusions

1. The hessnatur database on code implementation containing both supplier and production site data is handled by the department Innovation and Ecology. Before working together with new suppliers the buying department notifies the department



Innovation and Ecology . The department Innovation and Ecology checks for alliance towards ecological and social issues. If both requirements are fulfilled, the buying department gets the allowance to order.

2. Information regarding the implementation of the Code of Labour practices at production site level is shared with buyers at the bi-yearly meeting where suppliers (intermediaries) are ranked as A, B or C suppliers.

10. Transparency

Conclusions

1. hessnatur informs the public about its FWF membership through its website, a corporate blog, the catalogue and in its communication with media.

2. The annual social report of the previous year has been approved by FWF and placed on the website of hessnatur.

3. Information about FWF membership is posted on the website of hessnatur in correct wording.

11. Management system evaluation and improvement

Conclusions

1. The department Innovation and Ecology at hessnatur meets annually (the beginning of each financial year in October) to evaluate the work with implementing the FWF code of labour practices.

12. Basic requirements of FWF membership

Conclusions

1. Work plan for the current year has been received by FWF.

2. The supplier register submitted for 2009 did not contain all relevant information.

3. Membership fee for 2008 has been paid.

Requirements

2. The register containing production site addresses supplied to FWF must contain all relevant data.



13. Recommendations to FWF

<i>Recommendations</i>
1. hessnatur wants FWF to expand its expertise to more production countries.
2. hessnatur urges FWF to find a secure way of handling supplier information provided by affiliates.
3. hessnatur thinks information requests such as work plans and annual social reports should have a deadline of at least two months since it takes a lot of coordination work within the affiliates to compile these documents.
4. hessnatur wants clearer and up to date information on what activities FWF can undertake in different production countries.
5. Communication between affiliates, FWF and FWF auditors in production countries is complicated and hessnatur would prefer to have direct contact with the audit supervisors.
6. hessnatur asks that FWF includes a clear sentence on the audit reports on how these can be spread. If they are confidential it should clearly be stated in the audit report that they should not be spread or publicised.
7. FWF should offer an introduction workshop to affiliated companies about what FWF is and how we work. This should also be for the people working directly towards customers and help affiliates build up customers' understanding of what affiliates are doing.
8. FWF could offer the affiliated companies information about audits and other activities that are told in a non technical way so that it can more easily be communicated to customers and staff.

13.4 Improvement of labour conditions		
	China: five FWF factory audits carried out at four factories 2005-2008	China: Four factory audits by FWF teams during 2009 at the same four factories as audited 2005-2008 (see left column).
Sourcing practices (price, leadtime, quality requirements)	Not part of these audits	One factory management pointed out that orders are stable, but prices low. The management at this factory also pointed out that incentives to improve with regards to social standards come from intermediate company rather than hessnatur.
Monitoring system of FWF member company	Not parts of these audits	The management of one factory points out that there is no direct communication with hessnatur on issues regarding social compliance.
Management system factory to improve labour standards	The FWF Code of labour practices were not posted in any on the factories.	At two factories the code was still not posted on the wall.
Communication, consultation and grievance procedure	In all factories there was no well functioning channel for communication between management and workers.	At two of the factories workers' committee and the union were now functioning well.
Employment is freely chosen	No major non-compliances found	No non-compliances found
No discrimination in employment	No non-compliances found	No non-compliances found
No exploitation of child labour	No cases of child workers were found. In some cases juvenile workers not correctly registered, worked regular over time or time records were not good enough to verify amount of over time work of juveniles.	In one factory over time documentation was still too bad to verify over time work for juvenile workers. At another factory juvenile workers were still not registered properly.
Freedom of Association and the Right to Collective Bargaining	At one factory there was a union that did not properly represent the workers.	At the re-audit the union had held an election and had collective bargaining.
Payment of a Living Wage	All four factories got remarks on incorrect payments of wages. A further problem raised was that time records often to bad to verify that correct wages had been paid.	At three of the factories re-audited there were still remarks on payments of wages although some improvements had been made.
No excessive working hours	All factories audits had either remarks on over time or time records were too bad to verify work time.	Improvements had been made on the recording of time worked, but all factories still got remarks on either documentation of working time or excessive over time.
Occupational health and safety	Majority of factories have comments on ergonomics. There were also points for improvements found with regard to fire, chemical and machine safety.	A lot of the safety issues found during the first audit had been remediated at time of second audit. One factory still got remarks on handling of chemicals
Legally binding employment relationship	All of the factories had remarks on the contracts for workers.	In all factories major contract issues were solved (minor points remain). Three of the factories also got remarks for not providing correct insurance for all workers.
Special remarks	None	None

13.4 Improvement of labour conditions		
	Romania: Follow up audit carried out on behalf of Hessianatur in 2008, one year after the initial FWF factory audit was done.	
Documentation	Remarks given that personal files incomplete at first audit. Still the case at second audit	
Buyer-supplier relationship (duration)	Not part of audit	
Sourcing practices (price, leadtime, quality requirements)	Management commented that deadlines for production set by hessianatur's intermediate is not always realistic.	
Monitoring system of FWF member company	Not part of audit	
Management system factory to improve labour standards	Not part of audit	
Communication, consultation and grievance procedure	The FWF code is now displayed in a visible location in the factory.	
Employment is freely chosen	No non-compliances found	
No discrimination in employment	No non-compliances found	
No exploitation of child labour	No non-compliances found	
Freedom of Association and the Right to Collective Bargaining	There is a functioning trade union that is consulted for decisions. Furthermore there is a collective bargaining agreement.	
Payment of a Living Wage	Employees' salaries have been increased and the daily quota adjusted so that most workers can meet it.	
No excessive working hours	Apart from missing written agreement of the workers who performed over time, there are no non compliances with regard to hours worked.	
Occupational health and safety	All requirements and recommendations implemented	
Legally binding employment relationship	There need to be additional information in the contract regarding salary adjustment.	
Special remarks	None	

13.4 Improvement of labour conditions	
	Macedonia: Summary of most important findings three factory audits carried out on behalf of Hessianatur in 2008 and 2009
Sourcing practices (price, leadtime, quality requirements)	Not part of these audits.
Monitoring system of FWF member company	It was unknown to the management at two of the factories that the audit was conducted on behalf of hessianatur who is affiliate of FWF.
Management system factory to improve labour standards	Not part of these audits
Communication, consultation and grievance procedure	FWF Code of Labour Practices not posted in two of the factories.
Employment is freely chosen	No non-compliances found
No discrimination in employment	No non-compliances found
No exploitation of child labour	No non-compliances found
Freedom of Association and the Right to Collective Bargaining	No non-compliances found
Payment of a Living Wage	At one factory it was not clear how salaries were calculated.
No excessive working hours	At two of the factories working hours were not properly documented.
Occupational health and safety	There was a general problem with non-functioning health and safety representatives. Two factories received remarks for electrical safety and ergonomics. Two factories also received remarks for missing health and safety and fire safety trainings.
Legally binding employment relationship	No non-compliances found
Special remarks	None