



Management system audit report

Acne Studios

13 May 2011

FWF member since: August 2008

Sources of information

A: Database FWF

B: Annual report and work plan

C: Archived documents

D: Mattias Magnusson (General Director)

E: Emma Häggström (CSR / contact person for FWF)

F: Shagoon Faisal (Sourcing)

Audit conducted by:

Henrik Lindholm



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Introduction

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



Executive summary

At the time of the management system audit (MSA), Acne Studios had been affiliated to FWF for over two and a half year. The company has during this time focused on performing their own internal audits at their suppliers. In total Acne Studios has covered 60% of their supplier base with their internal audits. Several of these suppliers have been visited repeatedly and Acne Studios has seen concrete improvements at factory level. A further 28% has been covered by implementing the low risk policy. When it comes to the internal management system to handle information and follow up, the company has now hired a person who will only work with CSR to develop a more systematic approach. The MSA conducted in 2011 at Acne Studios show that the company is in the process of implementing FWFs management system requirements.

In total, Acne Studios did 27 internal audits in 2010. This is an ambitious level of auditing considering the number of suppliers of Acne Studios. The audits done by Acne Studios do not meet all FWF's requirements on audit quality as outlined in the FWF Manual for Affiliates. However, the audits have uncovered non compliances regarding most labour standards and achieve concrete improvements at factory level. From the two verification audits done by FWF it was found that the internal audits had not detected several important non compliances. These included compliance with specific national legislation and findings regarding communication between workers and management. These areas are not easily covered without good knowledge of local laws and practices, as well as the ability to do workers interviews. Audits generally also require more time than Acne Studios has used in some cases, in order to properly be able to check all documents and cross check with interviews.

The verification audit carried out by FWF at Acne Studios' supplier in China, showed that several substantial improvements had been made regarding health and safety after Acne Studios' audit five month earlier.

In October 2010, Acne Studios received a complaint regarding a supplier in Turkey where workers complained about harsh treatment by supervisors in the factory. Investigation showed that the complaint was founded and FWF advised Acne Studios to make sure the factory receives proper training regarding grievance handling and worker supervisor communication. Acne Studios is now in the process of overseeing if this is being done properly at factory level. Acne Studios need to improve its capacity to swiftly respond to complaints as this can be crucial in enabling an easy resolution.

Acne Studios has during 2010 had two persons part time devoted to following up social compliance at factory level. One of them has been in charge of doing the audits and follow up at factory level. The rest of the staff at Acne Studios has been briefed on the audit outcomes at internal meetings. Acne Studios has stated that the goal of the company is to develop a more coherent system for keeping track of audit information and corrective actions during 2011.

Positive findings

Conclusions

1. Acne Studios has covered 88% of their supply chain in their monitoring system and is able to demonstrate improvements at factory level through repeated follow up visits.
2. Acne Studios is planning to increase the amount of visits at production site level.
3. Acne Studios arranged a meeting for all suppliers in Stockholm during 2010 where CSR was one of the topics covered.

1. Sourcing

Conclusions

1. 42% of production is sourced from low risk countries and 58% is sourced in countries defined as high risk by FWF. Turkey, Italy and China are the biggest production countries. During 2010, Turkey was the biggest production country. Acne Studios also has production in Korea, Lithuania, Morocco, Portugal, Romania, Thailand and United Kingdom.
2. The sourcing strategy has changed towards trying to have a more continuous production over the year by placing several small orders. There is no sourcing policy or routine on paper clearly mentions the position of Code of Labour Practices in the decision making process.
3. The company states an ambition to work long term with their suppliers. From the submitted supplier register, this is reflected in that 61% of the FOB comes from suppliers where the relationship started in 2005 or earlier. 7% of the FOB comes from suppliers where the relationship started in 2010 and 2011.
4. Acne Studios has a supplier evaluation system where suppliers are graded according to different areas. CSR is one component in this system.
5. According to Acne Studios' internal routines, new suppliers should be visited and a first visual inspection of the production facility should be done. At this point the supplier also needs to sign their Restricted Chemicals List and the Code of Labour Practices and fill in the questionnaire.
6. Although issues regarding excessive overtime and non payment of overtime has been found during factory audits, there has been no systematic evaluation of if the conditions offered allow suppliers to meet these requirements. When establishing prices the wage component of the price is not discussed separately. Efforts have been made to give suppliers more time by shortening the sales period. The effect that this has had on allowing to keep working hours within legal limits has not been evaluated yet. Acne Studios' experience is that their orders are so small that they are not likely to cause excessive overtime.
7. Standard lead times for orders and re-orders vary between a few weeks and half a year depending on the type of production.

Recommendations

2. A written sourcing policy or routine that takes code implementation into account can give buyers a clearer incentive and mandate to take social aspects into account when placing orders at suppliers.
6. FWF recommends investigating the root causes of overtime in cooperation with factories. Even if Acne Studios' orders are too small to cause excessive over time, doing such analysis with the supplier will help identifying different ways to address the issues. Incidents of overtime, their origin and severity should be recorded to support this analysis. It is recommended that a period be defined which is representative for an entire business year for the factory to carry out this analysis. 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. The plan should explain how and if and to what extent the factory can control overtime hours, and to what extent Acne Studios, and other buyers, could support remediation.

6. 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. 88% of Acne Studios Studio's production has been covered by the company's monitoring system. 60% has been audited (including 14% in low risk countries). An additional 28% is covered through implementation of the low risk policy. 5% of the production has been audited by FWF's local audit teams.

2. Staff from Acne Studios performed internal audits to monitor the suppliers. These audits are based on the FWF audit manual and the person responsible for carrying out these audits have attended the FWF auditors training in Istanbul in 2009 and the factory audit training in Italy in 2010. The audits of Acne Studios cover the areas of the FWF Code of Labour Practices. The audits include documents and visual inspection as well as interviews with management and workers. The audit methodology does not meet the formal requirement outlined in FWF's Manual for Affiliates on several points, including ability to communicate in local language and time used for the audit. During FWF's two verification audits in China and Turkey, it was found that the approach needs to be improved in order to uncover non-compliance with specific national legislation (i.e. payment of social security costs, annual leaves and specific rules for juvenile workers) and findings regarding communication between workers and management. In the audit in China, the audit by Acne Studios refers to government approval to work on Saturday as a normal, something that is not legal, and fail to see that the workers committee in the factory does not live up to legal requirements. This shows a need for a better knowledge of local law when conducting the audits. Worker interviews are not done at all audits and often middle management are used for interpretation. When possible, staff from other departments were used for interpretation to minimise the risk of workers feeling intimidated by their supervisors. See the appendix on factory level findings.

3. The corrective action plans resulting from conducted audits are followed up through new factory visits and by asking suppliers to report improvements directly to Acne Studios. Suppliers are asked to send photos or other documentation to show improvements implemented. It has not always been possible to register all reported improvements to keep an updated overview of the situation due to time constraints.

4. Acne Studios has said that they want to cooperate with other customers of manufacturers regarding monitoring and execution of Corrective Action Plans when suitable. At the time of the MSA, no concrete cooperation on improvements at factory level had been done.

Requirements

2. FWF is positive that Acne Studios has an ambitious auditing schedule to cover their suppliers, but in parts the audits of Acne Studios do not meet the quality requirements as described in the *FWF manual for affiliates*. Acne Studios should look into those requirements to see how their audits gradually can be brought into line with those requirements. Especially important is to have the knowledge of specific national legislation and to be able to do worker interviews without interference of middle management.
3. Acne Studios should develop its system to keep track of improvements made at suppliers.

Recommendations

2. FWF recommends requesting external audit bodies to include worker interviews in their audit approach. It is recommended to periodically make use of FWF audit teams as a means to benchmark reports from other auditing initiatives.

3. Complaints procedure

Conclusions

1. Acne Studios has a designated person to handle complaints of workers. The ambition is that relevant persons within the company should be informed by the person responsible for handling complaints as soon as possible so swift action can be taken. As Acne Studios does not have a big team working with their suppliers, the company has seen no need for a written internal complaints handling system.
2. Acne Studios has a system in place to post and monitor that the information sheet for workers is displayed. During FWF's audit at a supplier in China in May 2010, the factory reported that they had not received the information sheet for workers. At the FWF audit in Turkey in December, the information sheet for workers was posted in several places in the factory after Acne Studios last visit.
3. In October 2010, Acne Studios received a complaint regarding a supplier in Turkey where workers raised the issue of harsh treatment by supervisors in the factory. Investigation showed that the complaint was founded and FWF advised Acne Studios to make sure the factory receives proper training regarding grievance handling and worker supervisor communication. Acne Studios is now in the process of overseeing if this is being done properly at factory level. Acne Studios need to improve its capacity to swiftly respond to complaints as this can be crucial in enabling an easy resolution. Acne Studios stresses that the reason for not reacting faster in this instance was that the company was in a process of restructuring at the time they received this complaint.

Requirements

2. Acne Studios Studio should make sure that all factories receive and post the

information sheet for workers.

3. Within 2011, Acne Studios should follow up at factory level that systems to handle communication and grievances has been implemented at the factory where the complaint was filed.

Recommendations

1. Having an internal procedure for how to handle complaints can help speed up the process of handling complaints that are received. Such procedure can include by what time responsible persons should be informed and maximum response times.

4. Labour conditions and improvements

Conclusions

Based on results of factory audits carried out by FWF teams and complaints of workers, FWF has drawn up an overview of labour conditions in factories. The overview is annexed to this report.

1. In China the local FWF audit team conducted a factory audit at a supplier to Acne Studios that had been audited by Acne Studios five month earlier. During the FWF audit, it was noted that substantial improvement had been done regarding health and safety after Acne Studios Studio's own internal audit. The factory still had problems with excessive overtime, however, there were indications that the highest overtime hours had been cut down. Wages in the factory are above the minimum wage but not at the level of local stakeholders' estimate of a living wage.

2. In Turkey the local FWF audit team conducted a factory audit at a supplier to Acne Studios that had been audited by Acne Studios two month earlier. The Acne Studios Studio audit registered excessive overtime, gave remarks on fire safety, chemical handling, missing machine protection and lacking recruitment policy is missing. The FWF audit noticed that the factory was not following regulation regarding juvenile workers, not all workers had contracts, and social security costs were not properly paid for all workers. The audit also showed that there is no functioning internal grievance system in the factory and workers reported cases of harassment by supervisors. Wages in the factory are above the minimum wage but not at the level of local stakeholders' estimate of a living wage. No substantial improvement were noted since the Acne Studios Studio audit conducted two months earlier, and the factory reported that they had not received the audit report from Acne Studios at the time of the FWF audit.

Recommendations

1. and 2. For issues regarding excessive overtime, see recommendations under Sourcing above.

2. and 3. It is recommended to arrange additional factory trainings that aim at strengthening dialogue on factory level. FWF is in contact with local organisations and consultants active in the regions where the factories are located. These local

organisations and consultants 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 communicate effectively with management.

2. and 3. Acne Studios should take an active role in discussing living wages with their suppliers. The FWF wage ladder can be used as a tool to implement living wages. Most relevant wages, such as local minimum wage, Asia Floor Wage, collective bargaining wage and industrial best practice wage are provided in the wage ladder. The wage ladder is included in FWF's audit reports. It demonstrates the gaps between workers' wages at a factory and living wages demanded by major local stakeholders. Acne Studios can use the wage ladder to document, monitor, negotiate and evaluate improvements in wages at its suppliers.

5. Training and capacity building

Conclusions

1. Staff of Acne Studios is informed about FWF membership and the implementation of the Code of Labour Practices through the CSR responsible within the company. They update the team at Acne Studios after factory audits. The CSR responsible persons within Acne Studios have had several trainings, including attending two audit trainings arranged by FWF.
2. Agents are informed about FWF membership and the implementation of the Code of Labour Practices through communication with responsible persons at Acne Studios.
3. Manufacturers are informed about FWF membership and the implementation of the Code of Labour Practices through answering the questionnaire as well as through the audits of Acne Studios and the responsible buyers. Acne Studios also arranged a supplier meeting where all suppliers were invited to Stockholm to be informed about the cooperation with Acne Studios. During the supplier meeting in Stockholm in April 2010, around 60 representatives from suppliers participated and the CSR work of Acne Studios was one topic covered.
4. Workers at suppliers are informed about FWF membership through posting the information sheet for workers in the factories. To some extent workers are also informed through the worker interviews done at Acne Studios' internal audits. Acne Studios is actively encouraging a Turkish supplier to join FWF's training project on social dialogue.

Recommendations

3. FWF arranges supplier seminars and trainings in China. All FWF affiliates are free to invite their suppliers to these seminars at no cost. The next seminar will be in September 2011. FWF encourages Acne Studios to invite their suppliers to this seminar.
4. Either arranging separate workers trainings, or having an information session on the Code of Labour Practices and the complaints mechanism during the internal audits can be a good way to increase the level of knowledge among workers.

6. Information management

Conclusions

1. The CSR responsible keep the supplier register updated. The supplier register submitted for 2010 did not contain all suppliers of Acne Studios.
2. The system to integrate information regarding sourcing and the implementation of the Code of Labour practices consists of meetings after audits where major findings are discussed and the grading system for suppliers. There is no shared information management system where staff can find information on the progress of the corrective action plans can be seen.

Requirements

1. The supplier register submitted to FWF should be in the correct format and contain updated information on all suppliers. The supplier register must contain all suppliers and sewing subcontractors.

Recommendations

2. It is recommended to have an information management system where updates on the status of corrective action plans easily can be entered and accessed by relevant staff. Acne Studios has clearly stated in their

7. Transparency

Conclusions

1. The member company informs the public about its FWF membership on its homepage. On the homepage the code of conduct is also possible to download. There is no link to FWF or any explanation of what the membership entails. Acne Studios commented that it is their ambition to offer more information on CSR through their homepage.
2. Staff at Acne Studios' stores have received information regarding the FWF membership during staff training. Questions to the main office regarding code compliance are answered by the CSR responsible. Acne Studios Studio commented that they do not receive many questions from consumers regarding working conditions in the production.
3. The social report of 2010 was received in May 2011. The report of the previous years had not been placed on the homepage of Acne Studios.

Requirements

1. The information on the homepage should contain an explanation of the membership commitment, or a link to FWF where this is explained in more detail.
2. The social report of the previous year should be submitted in time and posted on the homepage of the member company.

8. Management system evaluation and improvement

Conclusions

1. Acne Studios has had a strategic evaluation of the CSR work including representatives of the board as well as relevant staff responsible for executing the CSR work of Acne Studios.
2. In 2010 there was a supplier meeting in Stockholm where one of the topics on the agenda was CSR. This was also an opportunity for the suppliers to discuss how they could work together with Acne Studios better.

Recommendations

2. During the internal audits of Acne Studios, feedback from suppliers can also be collected to have this information gathered in a coherent way. FWF's audit format can be used to see how this can be done.

9. Basic requirements of FWF membership

Conclusions

1. Work plan for 2011 was received in April 2011. Acne Studios explanation for this was that they had a change in management and that they wanted the new CSR Manager who started in April to take part in writing the work plan.
2. Membership fee for the previous year has been paid

Requirements

1. The work plan should be submitted to FWF at the latest 31 December for the coming year. If the work plan is received in time, FWF has a greater possibility to give feedback and support to Acne Studios.

10. Recommendations to FWF

Recommendations

1. Acne Studios find the possibility to have dialogue and getting feedback from FWF on the most important part of the affiliation to FWF. Meeting other companies to discuss code implementation is not the priority.
2. The questionnaire for suppliers provided by FWF could be improved. For example, the format could require suppliers to hand in previous audit reports and also ask that a responsible person at the factory sign the questionnaire. Another idea is that the questions in the questionnaire should be designed to gather more information more than "yes" or "no" answers. For example to have specific questions to find out if the supplier are aware of local legislation etc.

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

Factory: One of Acne Studio's supplier in China

| | Source: Acne Studios own internal audit November 2009 | Source: Audit on behalf of FWF by FWF local audit team in May 2010 |
|--|--|---|
| Workers interviews | | |
| Documentation | Missing list of sub-contractors and questionnaires from sub-contractors. | Work time records are not completed, |
| Sourcing practices (price, leadtime, quality requirements) | Not part of audit | It sometimes happens that ACNE delay confirmation of production orders, cancel confirmed orders or cut production amount after confirmation. |
| Monitoring system of FWF member company | Not part of audit | No FWF Code of Labour Practice was posted. |
| Management system factory to improve labour standards | Not part of audit | No findings |
| Communication, consultation and grievance procedure | Not part of audit | No findings |
| Employment is freely chosen | No findings | No findings |
| No discrimination in employment | No recruitment policy | No findings |
| No exploitation of child labour | The company does not maintain records of its juvenile workers and does not restrict their overtime. | There is no policy paper on management of young workers. |
| Freedom of Association and the Right to Collective Bargaining | No findings | Number of workers' representatives in the committee is too small, meetings not regular and workers are not aware of the committee. |
| Payment of a Living Wage | No findings | Wage are being calculated based on a incomplete work time records. Workers reported a piece-rate calculation instead of the time-rate as mentioned by the management. |
| No excessive working hours | Workers work overtime in excess of the requirement (up to 14 hours, 6 days a week). Government Approval for working on Saturdays as a normal day missing. | Work times are not accurately recorded. The estimated work time is 72 hours per week for some workers during high season. The factory cannot ensure one rest day in every week. |
| Occupational health and safety | Several improvements needed on fire safety. Protective gear missing from machines. Documents missing: Signed Restricted Chemical List, documents for water treatment plant (system and maintenance), documents for first aid training program. | Only minor remarks on machine and equipment safety. |
| Legally binding employment relationship | No findings | No findings |

Factory: One of Acne Studio's suppliers in Turkey

| | Source: Acne Studio's own audit October 2010 | Source: FWF audit December 2010 |
|--|--|---|
| Sourcing practices (price, leadtime, quality requirements) | Not part of audit | No findings |
| Monitoring system of FWF member company | Not part of audit | According to management Acne Studios conducted a half day visit in October. The findings, which are around some H&S issues were communicated to the factory management verbally. No written reports were provided. |
| Management system factory to improve labour standards | Not part of audit | The factory does not have a system for improving its social compliance performance. |
| Communication, consultation and grievance procedure | Not part of audit | There are neither any elected worker representatives, nor any other effective systems for handling complaints. |
| Employment is freely chosen | No findings | No findings |
| No discrimination in employment | No findings | No findings |
| No exploitation of child labour | No findings | Juvenile workers are not working overtime and their working conditions are not properly monitored. |
| Freedom of Association and the Right to Collective Bargaining | No findings | There is not a written freedom of association procedure in place. |
| Payment of a Living Wage | Wages according to legislation | Wages according to legislation but below local stakeholders estimate of a living wage. |
| No excessive working hours | In peak production period working hours reached 71 hours. | Security guards are working 12 hours a day. Some workers have exceeded the total annual limit of over time hours in 2009. |
| Occupational health and safety | Remarks on fire safety. Chemical handling needs improvement and missing machine protection. The door of the compressor and steam boiler room is kept open. | Legally required H&S committee is not active, and there are no worker representatives in the committee. Remarks on fire safety. Health and safety routines do not meet legal requirements. Chemical handling need improvement. Legally required H&S trainings not done. Missing or not operational machinery protectors. The door of the compressor and steam boiler room is kept open. |
| Legally binding employment relationship | Recruitment policy is missing | Full wages are not registered to the Social Security Agency. Employment contracts of 25 workers are missing. In some cases, sick leaves are deducted from the annual leave. |