



Fair Wear Foundation

Management system audit report

Switcher SA

16 August, 2011

FWF member since:

15 December 2006

Sources of information

Interview with Gilles Dana, Danièle Buonocore (CSR department)

Annual report and work plan

Archived documents

Database FWF

Audit conducted by:

Juliette Li, International Verification Coordinator



Fair Wear Foundation

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Introduction

In August 2011 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Switcher SA (hereafter Switcher). The MSA is a tool for FWF to verify that Switcher 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 2011. FWF tailored the MSA to the specifics of the management system of Switcher in order to assess the key issues of interest. During the MSA, employees of Switcher were interviewed and internal documents have been reviewed.

From November 2010 to October 2011 Switcher participated in a pilot to assess how FWF's verification approach can measurably improve the working and living conditions along the textile supply chain for Fairtrade certified cotton. This pilot hereafter was set up by Fairtrade International (FLO), Fairtrade Max Havelaar Switzerland, Max Havelaar Netherlands and Fair Wear Foundation. As a part of this pilot FWF assesses the performance of Switcher in supporting the improvements in working conditions in factories through their business practices. This is an additional point in the MSA report.

The MSA was conducted 8 months after the previous MSA. FWF usually conducts an MSA at each member company once in a period of 12-18 months. As the pilot project with Fairtrade International (MSA) needed to be concluded by October 2011, FWF arranged an MSA to assess the situation of Switcher earlier. Due to schedule constraint of both FWF staff and Switcher staff, no interviews were conducted to production department and communication department. At the time of the MSA, Switcher had just appointed a new CEO. As a result the interview with the CEO was also not conducted.

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 Switcher 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 Switcher that have been identified as key areas of interest for 2011. 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 Switcher to include information from the MSA report in its social report.



Executive summary

Switcher is in the process of implementing FWF's management system requirements. The company has experienced an organisation change in the last few years. This has influenced the progress of the work in the CSR department. Despite these changes Switcher has managed to maintain its commitment with FWF and the process of improving working conditions in factories. In 2011 Switcher actively responded to FWF's strategy against Sumangali Scheme in South India by communicating with suppliers located in the region, consulting local and international stakeholders, as well as supporting FWF's verification activities. The company has also become one of the front runners working with FWF on the pilot with Fairtrade International (FLO) to test if FWF's verification method could be used to improve working conditions in the entire supply chain Fairtrade certified cotton production.

Switcher's sourcing practice supports the implementation of the Code of Labour Practices. About 67% of Switcher's turnover is produced at factories with which the company maintains 5-year or longer relationship. Switcher relocated some of its production to suppliers in Portugal, where Fairtrade cotton is processed. As a result, 12.5% of the total volume is now produced in low risk countries. 3.8% of Switcher's cotton articles are sold under the Max Havelaar label.

Switcher has a standard lead time for material and production. Suppliers are always given 50 days for production starting from the date when the production is confirmed.

Switcher supports paying living wage to workers in principle. At the moment most suppliers are not at the level of living wages as defined by FWF's key local stakeholders yet. Switcher has identified limitations and opportunities to work towards paying living wages.

FWF suggested Switcher to focus on improving conditions at its main supplier and the other production stages in the supply chain of Fairtrade cotton. Due to limitation of resources, Switcher has monitored nearly 60% of its total purchasing volume up to the date of the MSA. This percentage is below the monitoring requirement of FWF based on the duration of Switcher's membership. The company is planning to use FWF local service provider to monitor factories in China before the end of 2010.

Switcher has discussed and followed up all Corrective Action Plans with the supplier in 3 months after the audit in 2011.

FWF did not receive any complaint regarding the factories supplying Switcher so far in 2011.

As part of the, FWF local audit team has audited three units of the supplier in India. No violations in child labour and discrimination were found during the audit. Major points requiring improvement include restriction of movement of workers living in hostels provided by the factory (further discussed in 4.1.2), payment of living wages, insufficient documentation of working hour and risks in occupational health and safety. Awareness of workers on labour rights and social dialogue is low in general. FWF suggests that the supplier could cooperate with FWF's key stakeholders in the region and support workers on establishing workers committees.

Staff and manufacturers of Switcher are systematically informed about FWF membership. The company makes efforts to maintain and update the information on working conditions at suppliers with an external information management system. Switcher was able to provide FWF with complete and accurate information on the operators in its supply chain of Fairtrade certified cotton.

Positive findings

Conclusions

1. Switcher actively responded to FWF's strategy against Sumangali Scheme in South India by communicating with suppliers located in the region, consulting local and international stakeholders, as well as supporting FWF's verification activities.
2. Switcher is one the front runners working with FWF on the pilot with Fairtrade International (FLO) to test if FWF's verification method could be used to improve working condition in Fairtrade certified cotton production.
3. About 67% of Switcher's turnover is produced at factories with long term relationships.
4. Switcher makes efforts to maintain and update the information on working conditions at suppliers with an external information management system. The CSR manager has attended the training in January. Stable suppliers at which audits have been carried out have joined the system to contribute information. The local compliance officer takes the lead to document improvements at factory level. Switcher is planning to attend more trainings to maximise the use of the system.

1. Sourcing

Conclusions

- 1.1 Switcher is committed to make its sourcing practices supportive to the implementation of CoLP. It has signed sustainability agreement with all suppliers. The sustainability agreement includes provisions regarding implementing FWF's Code of Labour Practices.
- 1.2 Currently Switcher works with 22 factories located in China, Taiwan, India, Turkey, Portugal, and Romania. Due to production and style reasons, Switcher has ended relationship with two of its suppliers in Bangladesh in 2010. Among the four new suppliers, three are in Portugal and one in China.
- 1.3 69.45% of Switcher's total volume is produced in 9 suppliers, with which the company maintains 5-year or longer relationships.
- 1.4 Switcher sources primarily from its business partner Prem Durai Group. The amount accounts for 47.58% of the total volume. Prem Durai Group is at the same time an investor of Switcher. The manufacturing group had cooperated with Switcher on producing Fairtrade cotton as one of the pioneers.
- 1.5 Switcher relocated some of its production to factories in Portugal, where Fairtrade cotton is processed. As a result, 12.5% of the total volume is now produced in low risk countries.
- 1.6 When choosing for new suppliers this year, Switcher's production staff visited the factory, assessed the current compliance status and informed the factory about FWF's membership. Since FWF does not require audits in low risk countries like Portugal, the focus of the discussion has been posting the CoLP. Switcher has only placed sample orders in the new suppliers. The production staff check if CoLP is posted once further cooperation is confirmed. The factory in China is SA8000 certified. Switcher has not yet placed an order in the Chinese factory. Once the

order is confirmed, Switcher will require the factory to provide its most recent audit report.

- 1.7 In addition, suppliers of Switcher submit the names and contact information of their material suppliers and subcontractors (if any) for the sake of traceability. For factories processing Fairtrade certified cotton, the FLO IDs of all operators in the supply chain needs to be submitted to Switcher prior to the first order.
- 1.8 Switcher believes that there are much advantage working with vertically integrated factories since the company requires traceability of each product. In the case of Prem, Switcher initiated the plan to produce Fairtrade cotton products in 2005 with the cooperation of Max Havelaar. Switcher has its own local compliance officer stationed in the factory permanently. To choose new suppliers processing Fairtrade cotton, Switcher only approaches Fairtrade certified factories instead of persuading existing suppliers. In that case, Switcher relies on the CMT suppliers to make sure materials and accessories are sourced from factories meeting social standards.
- 1.9 3.8% of Switcher's cotton articles are sold under the Max Havelaar label.
- 1.10 Switcher has currently 19 stable suppliers. The 4 new suppliers are in the trial period. According to Switcher, it is difficult to establish an incentive system based on amount of orders to reward stable suppliers since different factory has different capacity and produces different products. In Portugal, due to the size of the factories, they do not have the capacity even if they would receive more orders.
- 1.11 Switcher has a standard lead time for material and production. Suppliers are always given 50 days for production starting from the date when the production is confirmed. Due to the style of the products, Switcher does not place urgent re-orders. Both suppliers and Switcher are satisfied with the lead time.
- 1.12 Excessive OT was found in a Chinese supplier during audits conducted by FWF in January 2010. The factory reported that OT has been reduced to an acceptable level according to local requirement. FWF has not yet verified the result. OT record was not properly maintained in the supplier in India.
- 1.13 Switcher has made a step forward regarding the payment of living wages. The company is currently assessing how to implement it at one of its suppliers. Although most suppliers have paid minimum wages, they are not yet at the level of living wages as defined by FWF's key local stake holders. Some suppliers do their own research or follow the requirements of SA8000. The followings are Switcher's contemplations in implementing living wage:
 - There are more than one manufacturing units in the supplier of Switcher. Some units do not produce for the company. If increase in wages only applies to workers working on Switcher products, other workers might feel unfair and unrest might be created. Thus living wages should be paid to all workers working for the same supplier. This needs to be taken into account when estimating the cost of paying living wages.
 - Switcher's order accounts for at most 30% of the total production of the supplier. Supporting living wage alone could be a difficult challenge. If FWF could help to ally other customers, it will be very helpful for Switcher.
 - The amount that Switcher needs to contribute to the supplier is the key for implementing living wage. Switcher has submitted to FWF all information needed to calculate the hypothetical contribution to paying living wage. It will wait for FWF's estimation.



1.14 Audit findings showed that minimum wage is paid at Switcher's suppliers, except for one knitting unit. Factory reported that wage level of the workers has been increased. The result has not yet been verified by FWF.

Requirements

1.13 & 1.14 Switcher received the audit reports from FWF that include the wage ladder and a supporting analysis. It demonstrates wage gaps and suggests realistic goals for suppliers. Switcher is recommended to use the wage ladder to assess the level of wages in its suppliers and discuss solutions.

Recommendations

1.12 Switcher is recommended to discuss with both suppliers and support them to decrease excessive overtime hours in factories. Since the causes of overtime seem to mainly lie on the suppliers, FWF suggest Switcher to provide training on reducing excessive overtime hours and increasing productivity to the suppliers. With regard to the supplier in India, Switcher could help establishing a system for recording working hours.

2. Coherent system for monitoring and remediation

Conclusions

- 2.1 Due to the high risk of forced labour in South India and the pilot with FLO, FWF suggested Switcher to focus on its main supplier and audit other units in the supply chain of Fairtrade cotton under the FWF standards. As a result, the company used FWF team to audit the vertically integrated supplier, including two CMT units, one spinning mill, one knitting unit and one embroidery and printing unit. Switcher will also have its ginning supplier participating in an audit. The audit is planned in November 2011.
- 2.2 Up to the date of the MSA, Switcher has audited 52.78% of its total turnover with the local audit team of FWF. Plus the 5.75% of the volume produced in the low risk country Portugal, Switcher is considered to have audited 58.53% of its total turnover. The percentage is below the monitoring requirement of FWF based on the duration of Switcher's membership (90% after 3 years of membership).
- 2.3 Due to the limitation of production order (see 1.10), Switcher decided that it is more cost effective for the company to focus on its main suppliers. The company has less leverage in the 11 suppliers which produce less than 2% of Switcher's total turnover. In addition, Switcher plans to further increase the order in its main Indian supplier, which will increase the percentage of total volume being audited by the end of 2011.
- 2.4 Switcher has a local compliance officer in its main Indian supplier. The company wishes FWF to give training to its local staff so that he could be responsible to closely monitor other suppliers in Asia.
- 2.5 In India the local compliance officer is responsible to follow up CAPs and report to CSR manager in the head quarter. Issues need more attention are discussed with



top management of the company. Other issues are managed by the compliance officer directly. In other countries Switcher relied on the supplier to check working conditions in previous stages of the chain.

2.6 47.58% of Switcher's volume was produced in the main supplier which has been covered by the FWF's pilot project with FLO.

2.7 Switcher's main supplier has reported improvements based on the corrective action plans (CAPs) resulting from the audits conducted by FWF team in April. All CAPs have been discussed with management before being finalised. Steps are taken to make improvements. Details could be found in 4.1.

Requirements

2.2 In 2011 Switcher is expected to ensure that its monitoring activities cover factories that jointly account for at least 90% of its total purchasing volume.

Recommendations

2.2 & 2.3 In 2012 Switcher is recommended to focus its work on its main supplier in India and the audited factories in China. The company could carry out a reasonable number of audits at important suppliers where no audit has been done to keep working towards the 90% threshold. Since audits have been done in 2008, Switcher could use the support of FWFs local audit team or other service providers to carry out low cost monitoring visits addressing CAPs at the suppliers.

2.4 FWF could provide training and support to the local compliance officer of Switcher to carry out monitoring activities. Since the local compliance staff has already attended trainings regarding audits and compliance at factory level, it will be more beneficial if the local compliance staff in India could attend FWF's affiliates seminar, which is held twice a year. The affiliates seminar provides training on effective ways to implement FWF's Code of Labour Practices, showcasing FWF's wide range of implementation tools. It is also an opportunity to share lessons and experience with CSR staff from other affiliated companies.

2.7 Switcher has participated FWF's pilot with Fairtrade International (FLO). It also provided data to FWF to conduct a hypothetical research on brand's contribution to the payment of living wages. FWF encouraged Switcher to focus on the CMT units of its main supplier in India.

- Together with its main supplier Switcher could discuss scenarios and strategies of increasing workers' wage based on the audit results.
- Switcher could also approach other buyers of the supplier to seek cooperation in paying living wages. Upon request, FWF will support Switcher in communication.

3. Complaints procedure

Conclusions

3.1 Switcher has a designated person to handle complaints of workers. There is an internal procedure to handle complaints. The local compliance officer is responsible



for ensuring that FWFs Code of Labour Practices (CoLP) is posted in the supplier factories. In low risk countries, Switcher's production department checks the status of CoLP when site visits are conducted.

- 3.2 No complaint regarding the factories supplying Switcher has been received so far in 2011.
- 3.3 Audit results showed that the CMT unit of Switcher's supplier of products made of Fairtrade certified cotton has posted the CoLP, as required by FWF. Since the scope of FWF previously did not include spinning and knitting units, these two units had not posted the CoLP.

Recommendations

- 3.3 FWF suggested Switcher to post the CoLP in all units in the supply chain of Fairtrade certified cotton, so that workers working with Fairtrade cotton are able to access FWF's complaints handling system. The CoLP should be in Tamil (local language in the region where the factory is located) and in Hindi (Northern Indian language, which is the language of some migrant workers in the factory.).

4. Labour conditions and improvements

Conclusions

Due to the agreement of FWF's pilot project with Fairtrade International(FLO),audit results of the suppliers are considered research data and kept confidential. A summary of the findings is written below. The overview of the CAPs is not annexed to this report. The overview of audits conducted before 2011 can be found in previous MSA reports at www.fairwear.org.

- 4.1 As part of the pilot, FWF local audit team has conducted audits at the Switcher's supply chain of Fairtrade cotton in India in April 2011. The supplier is a vertically integrated factory. The audits cover three units: knitting, spinning and CMT unit. Below is a summary of the audit results and the follow-up report that was provided by the supplier (the reported improvements are not yet be verified by FWF):

4.1.1 Management system of the member company and the factory: FWF has given recommendations to Switcher on supporting the factory in paying living wage and managing OT. These two issues have been discussed at 1.11 to 1.14 in this report. FWF suggested that the factory should be more transparent on its working hours record. It should be documented if the units that are processing Fairtrade certified cotton use workers from other units of the same manufacturing factory group. Workers who are involved in the practice should be consulted. The factory reported that the above has been completed in May.

4.1.2 Issues regarding forced labour: The workers living in hostels were not permitted to leave the factory premises unless accompanied by the warden. Both workers and management believe that it is because of personal security reasons. FWF commented that the factory should give full permission to workers to leave the factory and the hostel after working hour. The factory manager has responded to

the issue. Due to cultural differences, FWF and the member company have decided to give this issue room for further discussion.

4.1.3 Issues regarding **child labour** and **discrimination**: No violation is found.

4.1.4 Issues regarding **freedom of association and collective bargaining**: There are no trade unions active in the factory. Workers have low awareness of their labour rights in general. The factory has conducted a workers training on rights of organising in May 2011.

4.1.5 Issues regarding **payment of living wages**: At least minimum wages are paid at two units of the supplier. The wage level is below minimum wage at the knitting unit. Payment of overtime is also not documented in this unit. The manager claimed that wage level would be increased.

4.1.6 Issues regarding **excessive overtime**: Overtime hours are not accurately documented at two units. Overtime is documented at the CMT unit and weekly working hour is up to 75 hours. Although the factory has obtained a permit from the local government allowing this practice, it is the requirement of FWF that total working hour should not exceed 60 hours per week and OT should not be on regular basis. The factory reported that a system to document OT has been established. OT in the CMT unit is also decreased.

4.1.7 Issues regarding **occupational health and safety**: Issues regarding fire safety are found in the three facilities, such as unclear emergency exit marks and inappropriate placing of fire extinguishers. At the spinning unit, cotton dust and noise level are the main concerns. At all three units, FWF recommended that the factory should seek cooperation of a local NGO to support a functional anti-harassment committee for workers. The factory responded that all issues had been addressed. The management also approached a reputable local NGO from Tiripur - a key stakeholder of FWF- for its participation in the anti-harassment committee.

4.1.8 Issues regarding **labour relationship**: Workers were not informed about the importance of their appointment letters at two units. According to the management, an orientation programme had been designed and delivered to new workers.

4.2 FWF local audit team audited two other units (printing and embroidery unit and another CMT unit) at the Switcher's supply chain of Fairtrade cotton in India in August 2011. The reports of these audits have not been finalised by the time of the MSA.

Recommendations

4.1.2 FWF and its stakeholders are in discussion on freedom of movement in the context of South Indian culture. Adult women workers (above 18 years old) in India are to a certain extent still expected to be supervised. Parents of the workers concern about the safety of their children. The factory could support the workers with improving public security in the dormitory and neighbourhood where the factory located. On the other hand, it could also give knowledge and training to the workers to improve their social skills in protecting themselves.

Lack of communication and information put young women workers in a vulnerable situation. FWF recommend Switcher and its supplier to work with local NGOs and trade unions, who are key stakeholders of FWF. Women workers should be given a voice and a channel to communicate with external supportive organisations. Establishing functioning workers committee, especially anti-harassment committee,



is identified as the first step to support workers. FWF is planning a project starting from the end of 2011 on the issue, Switcher and the supplier are strongly recommended to participate in the project.

4.1.5 & 4.1.6 This has been discussed in the recommendation for 1.12-1.14.

5. Training and capacity building

Conclusions

- 5.1 Due to the reasons mentioned in the introduction, FWF did not interview production or communication staff of Switcher.
- 5.2 According to Switcher, all staff is informed about FWF and its commitment via internal newsletters. Urgent issues of implementing FWF's CoLP are discussed during internal meetings.
- 5.3 Manufacturers are systematically informed about FWF membership and the implementation of the Code of Labour Practices. All manufacturers returned the questionnaires and signed sustainability agreement prior to production. Switcher also invited FWF to present and discuss living wage and wage ladder to their business partners at their annual supplier's day in September 2011.
- 5.4 Switcher's CSR department announced the FLO pilot within the company. Key staff is informed more details of the pilot. All suppliers are informed about the pilot. The experience might be transferable to some suppliers but not applicable to all.
- 5.5 No workers training was organised in 2011. In August 2010, training was held at one of the suppliers in China. Switcher gained positive feedback from both the factory and workers.

Recommendations

- 5.3 FWF is developing a policy to recruit factories as members. Factory members are monitored by various verification process of FWF and local stakeholders. They can also access to extensive international and local resources via FWF. If suppliers met the prerequisites of FWF, Switcher could recommend suppliers to join FWF as factory members.
- 5.5 Switcher could take a role in promoting labour rights among workers at more suppliers. Training to workers could effectively raise awareness on CoLP. For factories which have already been audited by FWF, workers training could be organised with the support of FWF. The activity will also be recognised and calculated towards the monitoring threshold of 90%.

6. Information management

Conclusions

- 6.1 Supplier register submitted by Switcher is accurate and corresponds to Switcher's own social report. There is a clear procedure to keep the supplier register updated.

<p>There is a designated person to update the supplier register.</p> <p>6.2 Switcher makes efforts to maintain and update the information on working conditions at suppliers with an external information management system. The CSR manager has attended the training in January. Stable suppliers at which audits have been carried out have joined the system to contribute information. The local compliance officer takes the lead to document improvements at factory level. Switcher is planning to attend more trainings to maximise the use of the system. .</p> <p>6.3 Switcher provides FWF with complete and accurate information on the operators in its supply chain of Fairtrade certified cotton. Except the CMT suppliers, the other operators in the chain are not included in the information system yet.</p>
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7. Transparency

<p>Conclusions</p>
<p>7.1 Switcher actively informs the public about its FWF membership. Information on FWF is provided through brochures and catalogues.</p> <p>7.2 The annual social report of 2010 has been published. Switcher is transparent about the suppliers and the purchasing volume. Main points of CAPs are also mentioned in the report. Consumers can trace the production sites of products via www.respect-code.org</p> <p>7.3 Information about FWF membership is posted in the website of the member company in correct wording.</p> <p>7.4 The company followed the provisions in the Memorandum of Understanding regarding external communication on its involvement in FWFs pilot project with Fairtrade International.</p>

8. Management system evaluation and improvement

<p>Conclusions</p>
<p>8.1 Switcher regularly evaluates the implementation of FWF's CoLP. Management meetings involve discussions on factory compliance in the main suppliers. The management also discussed FWF's stakeholders consultation results regarding the Sumangali scheme in the region of South India.</p> <p>8.2 All manufacturers audited in the last three years had given updates to Switcher on implementing CAPs.</p> <p>8.3 Feedback and evaluation regarding FWF's pilot with Fairtrade International (FWF) will be discussed in the end of 2011, when all audits have been conducted and the pilot is concluded.</p>



9. Basic requirements of FWF membership

Conclusions

- 9.1 Switcher has met the basic requirements of FWF for 2010-2011. The 2011 work plan and annual social report for 2010 have been submitted. The annual membership fee has been paid.

10. Recommendations to FWF

Recommendations

- 10.1 Switcher has given two recommendations regarding monitoring support and monitoring tools. Switcher is glad that FWF is now able to offer affiliates with monitoring support and that the wage ladder tool is available for use.
- 10.2 FWF's pilot project with Fairtrade International could improve public communication strategy of both organisations. Messages of the pilot should be able to show consumers on the distinctive performances of the brands and the suppliers. This could be further developed when the results are available.