



Management system audit Araco (March 2011)

Management system audit report
Araco International B.V.
March 2011

FWF member since:

01-01-2010

Sources of information

Interview with Henk Greftehuis (Owner, General Manager)

Interview with Mirco Wittebroek (Quality Manager, contact person for FWF)

Annual report and work plan

Archived documents

Database FWF

Audit conducted by:

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Introduction

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

Executive summary

In March 2011 Araco informed FWF that it plans to terminate its membership. Reason for this is that its most important suppliers are reluctant to cooperate towards improvements in working conditions.

Since the start of its FWF membership (January 2010) Araco worked towards implementation of FWF's requirement to monitor working conditions at suppliers. Monitoring activities of Araco in 2010 covered approximately 58% of its purchasing volume. This is well above the percentage of 40% that FWF requires based on the duration of Araco's membership.

Araco discussed corrective action plans (CAPs) resulting from audits with suppliers through factory visits and ongoing communication through e-mail and phone. Unfortunately the factories that had been audited on behalf of Araco refused to cooperate in this process. Araco then took the decision to terminate its FWF membership.

Araco did not review its purchasing practices on the basis of the results from the corrective action plans (CAPs) of the three audits carried out in 2010. Araco stressed during the MSA that its relationships with its customers provide insufficient basis to implement changes in its purchasing practices due to downward pressure on prices. In this context FWF concludes that Araco's relations with suppliers do not allow for the implementation of the Code of Labour Practices (CoLP).

FWF recommends Araco to discuss with its customers that it is not possible to work towards implementation of the CoLP at the current level of sales prices. It is important to explain to those customers which see added value in Araco's FWF membership that their commitment is also needed to make meaningful improvements possible. Depending on the outcome of this discussion with key customers, Araco could take a final decision regarding FWF membership.

1. Sourcing

Conclusions

1. Araco informed FWF that it plans to terminate its membership in 2011. Reason for this is that its most important suppliers are reluctant to cooperate towards improvements in working conditions. In this context FWF concludes that Araco's relations with suppliers do not allow for the implementation of the Code of Labour Practices (CoLP).
2. Araco did not review its purchasing practices on the basis of the results from the corrective action plans (CAPs) of the three audits carried out in 2010. According to Araco its relationships with its customers provide insufficient basis to implement changes in its purchasing practices due to downward pressure on prices. Araco stated that it offered its main supplier of caps financial support for the implementation of the CAP; however the supplier did not accept this.
3. Araco supplies its suppliers of fleece products with an amount of fabric that is sufficient for a full year of production. This is done several months before the start of the calendar year. According to Araco this approach allows suppliers to spread their production, which could lessen the pressure on working hours during production peaks.

Recommendations

- 1-2. FWF recommends Araco to discuss with its customers that it is not possible to work towards implementation of the CoLP at the current level of sales prices. It is important to explain to those customers which see added value in Araco's FWF membership that their commitment is also needed to make meaningful improvements possible. Depending on the outcome of this discussion with key customers, Araco could take a final discussion regarding FWF membership.

2. Coherent system for monitoring and remediation

Conclusions

1. In total the monitoring activities of Araco in 2010 covered approximately 58 % of its purchasing volume. This is well above the percentage of 40% that FWF requires based on the duration of Araco's membership.
2. Araco discussed corrective action plans (CAPs) resulting from audits with suppliers through factory visits and ongoing communication through e-mail and phone. Unfortunately the factories that had been audited on behalf of Araco refused to cooperate in this process. Araco then took the decision to terminate its FWF membership.
3. Araco did not collect reports from previous audits from factories or shares audit reports with other customers of its suppliers to cooperate on follow up of CAPs.

Recommendations

3. FWF recommends cooperating with the other customers of its suppliers. An increasing amount of factories produces for multiple FWF member companies. If efforts to follow up on CAPs are coordinated greater leverage at suppliers can be attained. This allows for cost efficiencies for FWF members and also reduces the amount of energy that factories need to devote to report to their customers on CAP progress. In case reports of previous audits have been collected, FWF recommends using its checklist that has been developed to help companies assess the quality of audit reports.

3. Complaints procedure

Conclusions

1. Araco has a designated person to handle complaints of workers.
2. In 2010 FWF received one complaint from workers of factories where clothing is produced for Araco, filed by workers of a factory in China (access report [here](#)).
3. During factory visits at two Chinese factories Araco staff found that a translated copy the Code of Labour Practices including the contact details of FWFs local complaints handlers was not posted in the work place.

Requirements

3. Araco must ensure that the translated version of the Code of Labour Practices including contact details of FWFs local complaints handler is posted in the workplace of all factories where clothing is made. As the factory refused to post this document, Araco took the decision to terminate its FWF membership.

4. Improvement of labour conditions

Conclusions

1. According to Araco the three suppliers that had been audited realised a few improvements with regard to occupational health and safety. All other improvement points were not realised as suppliers refused to implement them.

No severe non-compliances were found on discrimination, child labour and forced labour.

In all three factories a trade union or workers' committee exists but does not function effectively: workers are not aware of the union or committee and/ or management was involved in these entities.

In all three factories a substantial amount of workers that are paid by piece rate earns less than the minimum wage. Generally leave benefits tend not to comply with Chinese labour legislation and production workers on a piece rate are not accurately compensated for overtime work.

In all three factories excessive overtime was found, with total weekly working hours ranging from sixty up to over one hundred working hours. As a result a weekly rest day could not be guaranteed to a substantial amount of workers. Factories lack a functioning system to ensure that overtime is voluntary.

In all three factories machinery lacked appropriate needle guards. Two factories had various problems related to fire safety.

In all three factories it was found that the majority of employees were not provided with pension, medical, accident, unemployment and maternity insurances. In one factory forty percent of all workers did not receive a copy of the employment contract.

5. Training and capacity building

Conclusions

1. Staff of Araco is sufficiently informed about FWFs working methods and its requirements for member companies. The person overseeing FWF membership at Araco participated in FWFs training program for member companies.
2. Araco has not taken steps to commission trainings for workers or management staff of factories or deployed local experts to support factories in realising improvements in working conditions.

Recommendations

2. If Araco would chose to make a final effort to cooperate with suppliers on realisation of corrective action plans it could be of added value to deepen the understanding of the implications of Araco's FWF membership. FWF recommends encouraging suppliers to participate in seminars that are organised in countries such as India and China. In 2011 FWF hosts supplier seminars in China to explain the FWF approach, to tackle any misunderstandings and to provide a platform for exchange of perspectives and ideas on recent and anticipated developments in the sector between agents, factories and other local stakeholders.

6. Information management

Conclusions

1. FWF finds that the supplier register that was submitted with the 2010 work plan is accurate.
2. Araco has a functioning procedure for keeping information for the supplier register up to date.

7. Transparency

Conclusions

1. Araco does not inform external public about its FWF membership through its corporate website.
2. Araco did not submit its 2010 annual social report to FWF.

Requirements

1. FWF expects member companies to specify on their website that its FWF membership means that it takes an active role in the process of working towards improvements in working conditions in factories.
2. For the remaining duration of membership FWF expects Araco to submit to FWF and publish an annual report describing the main activities to implement FWF membership and improve working conditions in factories in 2010.

8. Management system evaluation and improvement

Conclusions

1. Araco evaluates its practices to improve working conditions in factories as part of its ongoing activities regarding FWF membership. The contact person of FWF discusses progress in implementation of the FWF Code of Labour Practices with the company owner and suppliers when needed.

9. Basic requirements of FWF membership

Conclusions

1. Araco meets the basic requirements of FWF membership: The company handed in work plans for 2010 and 2011 and paid its membership fee for 2010.