



Brand performance check report

KTC Limited

September 2012

FWF member since:

15 May 2011

Sources of information

Interview Gerhard Flatz, Director

Audit by FWF at KTC Heshan China (April 2012); KTC Trio Laos (May 2012)

Annual report and work plan

Archived documents

Database FWF

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Introduction

In September 2012 Fair Wear Foundation (FWF) conducted a brand performance check at KTC Limited (hereafter: KTC). The performance check is a tool for FWF to verify that KTC implements the management system requirements for effective implementation of the Code of Labour Practices, as specified in the FWF Charter.

Starting point for the performance check have been the work plans for 2011 and 2012. FWF tailored the performance check to the specifics of the management system of KTC in order to assess the key issues of interest. During the performance check, employees of KTC were interviewed and internal documents have been reviewed.

FWF developed this report on the basis of findings collected during the performance check. The report contains conclusions, requirements and recommendations. If FWF concludes that the management system or performance 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 KTC 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 KTC that have been identified as key areas of interest for 2012. As FWF approaches the implementation of the Code of Labour Practices as a step-by-step process, it is well possible that performance check reports of subsequent years will focus on different aspects of the management system.

FWF will publish the conclusions, requirements and recommendations of all performance checks on www.fairwear.org. FWF encourages KTC to include information from the performance check report in its social report.

Executive summary

KTC is in process of implementing FWFs management system requirements for member factories.

KTC has full ownership of both of its factories (China and Laos).

The company has a system to determine the appropriate lead time and price for every order. If the lead time given by the client is too short, KTC negotiates with the brand company on price and lead time. In 2012, the company was able to improve on early order placements, which decreased pressure on working hours. KTC informs its customers in detail about the linkage between their purchasing practices and working conditions in the factory.

In April 2012 FWFs local audit team carried out an audit at the factory owned by KTC in China to verify improvements after previous audits in 2010 and 2011. In May 2012 FWFs local audit team carried out an audit at the KTC facility in Laos. During both audits it was found that no violations took place with regard to child labour, forced labour and discrimination. All wages and benefits are in compliance with local minimum standards.

In China wages for a regular working week of some workers (mostly in the cutting and inspection department) are below the living wage benchmarks that FWF collected from local stakeholders. In comparison to the previous audit, realised improvements included a higher percentage of workers that was fully registered with national social insurances, improvement of all issues regarding occupational health & safety and guaranteeing a weekly rest day for all workers. Two issues need further improvement: There is still a risk of excessive overtime in some departments and union representatives are appointed by management.

During the audit in Laos it was found that no violations took place with regard to child labour, forced labour and discrimination. All wages and benefits were found to be in compliance with local minimum standards. FWF was not able to compare wage levels in the factory with local living wage benchmarks, since these are not available in Laos. The factory in Laos still had to improve to develop a functioning grievance policy. The factory also needed a number of improvements on health and safety, and there exists a risk of excessive overtime.

FWF concludes from the above mentioned audits that the site of KTC in China has a well-functioning management system to implement the Code of Labour Practices. FWF will verify further improvements in both facilities in 2013-2014.

KTC actively responds to inquiries by journalists and publishes discussion articles that relate to working conditions in factories.

In its Chinese factory KTC conducted a wide ranging worker satisfaction survey. The survey indicated that whereas no major problems are perceived by workers, the company should improve the quality of communication between workers and management. The survey results will be used as input for further steps to realize improvements. As a first step the company is now making preparations for training of top and middle management, focusing on inter-departmental communications, conflict handling and resolution.



Positive findings

Conclusions

1. KTC actively responds to inquiries by journalists and publishes discussion articles that relate to working conditions in factories.
2. In its Chinese factory KTC conducted a wide ranging worker satisfaction survey. The survey indicated that whereas no major problems are perceived by workers, the company should improve the quality of communication between workers and management. The survey results will be used as input for further steps to realize improvements. As a first step the company is now making preparations for training of top and middle management, focusing on inter-departmental communications, conflict handling and resolution.
3. KTC participates in FWFs project with various outdoor companies to assess the impact of hypothetical increases towards living wage benchmarks. Through this engagement, KTC shows that it is committed to working towards implementation of living wages.
4. KTC arranged audits that covered 100% of its production volume, which means that the company moved beyond FWFs requirements for factory members regarding the process of monitoring working conditions (requirement in the first year of membership is to cover 40% of production volume).
5. KTC published the reports and corrective action plans resulting from audits by FWF teams in 2012 on its website.

1. Production planning

Conclusions

1. KTC has full ownership of both of its factories (China and Laos). The standard order lead time is 60 days. During the production planning process after order placement by brand companies, KTC staff compares sales requirements and production capacity to account for materials and workforce planning. The company has a system to determine the appropriate lead time and price for every order. If the lead time given by the client is too short, KTC negotiates with the brand company on price and lead time. In 2012, the company was able to improve on early order placements, which decreased pressure on working hours. KTC informs its customers in detail about the linkage between their purchasing practices and working conditions in the factory.

2. During the factory audits in China (2010 - 2012) it was found that excessive overtime had taken place during a production peak that covered several months. During the interviews for this performance check, KTC asserted its commitment to decrease overtime work in its factory.

Recommendations

1-2. FWF recommends KTC to analyse the root causes of excessive overtime at its factories in Laos and China. As part of such an analysis all incidents of overtime, their origin and severity could be recorded during a period which is representative for production peaks.

2. Internal management system for implementation of the Code of Labour Practices

Conclusions

1. In April 2012 FWFs local audit team carried out an audit at the factory owned by KTC in China to verify improvements after previous audits in 2010 and 2011.

During this audit it was found that no violations took place with regard to child labour, forced labour and discrimination. All wages and benefits are in compliance with local minimum standards.

Wages for a regular working week of some workers (mostly in the cutting and inspection department) are below the living wage benchmarks that FWF collected from local stakeholders.

In comparison to the previous audit, realised improvements included a higher percentage of workers that was fully registered with national social insurances (from 60% to 67%), improvement of all issues regarding occupational health & safety and guaranteeing a weekly rest day for all workers. Two issues need further improvement: There is still a risk of excessive overtime as workers volunteer to work additional hours and union representatives are appointed by management, which is a common practice in China. FWF would like to realise that representatives are independently elected by workers.



FWF concludes from the above mentioned audits that the site of KTC in China has a well-functioning management system to implement the Code of Labour Practices.

2. In May 2012 FWFs local audit team carried out an audit at the KTC facility in Laos. During this audit it was found that no violations took place with regard to child labour, forced labour and discrimination. All wages and benefits in compliance with local minimum standards. FWF was not able to compare wage levels in the factory with local living wage benchmarks, since these are not available in Laos.

The factory in Laos still had to improve to develop a functioning grievance policy. The factory also needed a number of improvements on health and safety, and there exists a risk of excessive overtime in some departments.

FWF will verify further improvements in both facilities in 2013-2014.

3. KTC participates in FWFs project with various outdoor companies to assess the impact of hypothetical increases towards living wage benchmarks. Through this engagement, KTC shows that it is committed to working towards implementation of living wages.

Based on results of audits carried out by FWF teams an overview of improvements in labour conditions in factories has been drawn up. The overview is annexed to this report. Results of audits by other initiatives are not summarized.

Recommendations

1-3. To further work towards implementation of living wages FWF encourages KTC to assess with individual clients how FOB prices could be increased in order to facilitate payment of living wages. The company could use the wage ladder as input for such an assessment. Further guidance and input for discussions with customer can be expected as a result from the outdoor project (forthcoming February 2013).

3. Coherent system for monitoring and remediation

Conclusions

1. KTC has actively followed up on the 3 audits carried out at its China facility (2010-2012) and Lao facility (2012). The company has hired a person who was designated to look after the implementation and monitoring of corrective action plan in the factory. The company arranged audits for 100% of its production base, which means that the company moved beyond FWFs requirements for factory members regarding the process of monitoring working conditions (40% of production volume in the first year of membership).

4. Grievance mechanism and complaints procedure

Conclusions

1. KTC has designated a person to handle internal grievances and complaints. This person is sufficiently aware of FWFs complaints procedure.
2. KTC has ensured that the Code of Labour Practices (CoLP) including contact information of the local complaints handler of FWF is posted in its factories in China and Laos. At both sites FWF verified that the CoLP is posted in a place that is accessible to workers.
3. Until September 2012 FWF received no complaints from workers of the factory of KTC in China.

5. Training and capacity building

Conclusions

1. KTC management staff is sufficiently informed about the requirements that result from FWF membership through internal meetings and presentations. Workers of KTCs factories in China and Laos received induction training on the Code of Labour Practices and the complaints procedure upon recruitment.
2. In 2011 KTC participated in FWFs supplier seminars in China. In 2012 the company made an active contribution to FWFs roundtable meeting (Shanghai, June 2012) where the design of FWFs Workplace Education Program (WEP) was discussed.
3. In its Chinese factory KTC conducted a wide ranging worker satisfaction survey. The survey indicated that whereas no major problems are perceived by workers, the company should improve the quality of communication between workers and management. The survey results will be used as input for further steps to realize improvements. As a first step the company is now making preparations for training of top and middle management, focusing on inter-departmental communications, conflict handling and resolution.
4. KTC has not yet engaged in FWFs training activities to promote dialogue between workers and management.

Recommendations

3-4. KTC is recommended to participate in training projects that aim at strengthening social dialogue and conflict resolution. As of 2012 FWF will offer its members the possibilities to participate in its workplace education program (WEP). The trainings are specially designed for factory management and workers, and will be offered to factories in Bangladesh, China, India and Turkey. These trainings are set up to strengthen awareness of and access to grievance mechanisms and alternative channels for dispute solving. The trainings will be offered to FWF members free of charge.

6. Information management

Conclusions

1. The subcontractor and customer register of KTC for 2011-2012 meets the requirements of FWF.
2. KTC has a functioning workflow to keep its subcontractor register up to date. KTC staff in China visits subcontractor sites.

7. Transparency

Conclusions

1. KTC actively informs the public about its FWF membership. The company informs the general public about FWF membership through its corporate website. This is done in correct wording and with references to FWF's website for further information. In addition to this KTC actively responds to inquiries by journalists and publishes discussion articles that relate to working conditions in factories.
2. KTC submitted its annual social report on 2011 to FWF. KTC has published this report on its corporate website. The report contains a description of the company management system for handling internal grievances, monitoring working conditions and planning working hours.
3. KTC is not making use of product communication regarding membership.
4. KTC has published the reports and corrective action plans resulting from audits by FWF teams in 2012 on its website.

Recommendations

4. It is of added value to publish the report and corrective action plan of the most recent audit at the factory of KTC in China on the corporate website. This gives customers insight in the level of working conditions in the factory and indicates that KTC works towards improvements in a transparent manner.

8. Management system evaluation and improvement

Conclusions

1. Top management of KTC evaluates steps taken in context of FWF membership as part of regular internal discussions. This is done in an ad hoc manner after key developments such as factory audits.



Recommendations

1. FWF recommends evaluating once a year to what extent the approach to improve working conditions is effective. The evaluation could for example assess which improvements were and were not successfully implemented in the factory owned by KTC, whether the chosen approach has been cost efficient, if FWF membership was successfully communicated to external parties and whether contacts with customers have been supportive for implementation of the Code of Labour Practices.

9. Basic requirements of FWF membership

Conclusions

1. KTC handed in work plans for 2011 and 2012.
2. KTC paid its membership fee for 2011.

10. Recommendations to FWF

Recommendations

1. KTC welcomes FWF to do more research and project work to assess the relationship between purchasing practices of brands and working conditions on factory level.

| Improvement of labour conditions: summary of most important findings | KTC (China) audited in March 2011 | KTC (China) audited in April 2012 to verify improvements |
|---|---|--|
| Sourcing practices of KTC Ltd. | The factory is a production site of a FWF factory member. | The factory is a production site of a FWF factory member. |
| Monitoring system of KTC Ltd. | The factory is a production site of a FWF factory member. | The factory is a production site of a FWF factory member. |
| Management system of factory to improve labour standards | Factory has not posted FWF Code of Labour Practices in the factory. | FWF Code of Labour Practices has been posted in several places for view by workers. |
| Communication and consultation | Some workers are not aware of the existence of the union. | Workers confirm they are aware of the existence of the union. Factory has conducted a wide ranging worker satisfaction survey. Results will be used as input for further steps to realize improvements. |
| Employment is freely chosen | No areas for improvement found. | No areas for improvement found. |
| No discrimination in employment | No areas for improvement found. | No areas for improvement found. |
| No exploitation of child labour | No areas for improvement found. | No areas for improvement found. |
| Freedom of association and the right to collective bargaining | Union representatives are not selected through an open election. | Chairman and committees of the trade union still not elected by workers. |
| Payment of a living wage | Wages and benefits in compliance with local minimum standards. Wages for a regular working week for most workers are below the living wage benchmarks that FWF collected from local stakeholders. | All wages and benefits in compliance with local minimum standards. Wages for a regular working week of some workers (mostly in the cutting and inspection department) are below the living wage benchmarks that FWF collected from local stakeholders. |
| Reasonable hours of work | Working hours are not fully recorded; some workers punch their card earlier than work time and later than the time they stop working. Some workers have worked more than 3 overtime hours in some work days and / or 7 consecutive days without a rest day. | Factory now makes a precise calculation of all working hours including OT for all workers and pays workers accurately based on the working hours that recorded. All workers are guaranteed a weekly rest day. The factory still has excessive working hours of over 3 hours OT per day for some workers. |
| Safe and healthy working environment | Detergents not properly stored. Storing tank for diesel not properly protected against leakages. Fire alarm for computerized-embroidery too far away from the work place; workers with earplugs will not be alerted visually. | Detergents properly stored. Diesel tank appropriately protected. New fire alarm system installed at the embroidering section, can now be heard and seen by workers. |
| Legally binding employment relationship | 60% workers fully registered with national social insurances. For migrant workers who wish to not enroll for government insurance, factory provides commercial injury and medical insurance. | 67% workers fully registered with national social insurances. For migrant workers who wish to not enroll for government insurance, factory provides commercial injury and medical insurance. |

| Improvement of labour conditions: summary of most important findings | KTC (Laos) audited in May 2012 |
|---|---|
| Sourcing practices of KTC Ltd. | The factory is a production site of a FWF factory member. |
| Monitoring system of KTC Ltd. | The factory is a production site of a FWF factory member. |
| Management system of factory to improve labour standards | There is no formal system to monitor and continuously improve working conditions in the factory. |
| Communication and consultation | There is no grievance policy & procedure was established and communicate to all employees. Workers are not well informed concerning the FWF Code of Labour Practices. |
| Employment is freely chosen | No areas for improvement found. |
| No discrimination in employment | No areas for improvement found. |
| No exploitation of child labour | Juvenile workers do voluntary work in excess of the working hours stipulated by local law. |
| Freedom of association and the right to collective bargaining | Employee representatives were elected in 2007, the election has however expired. |
| Payment of a living wage | Wages and benefits in compliance with local minimum standards. There is no living wage research available in Laos. The factory is encouraged to discuss wages with workers regularly to determine if wage level of the factory is sufficient. |
| Reasonable hours of work | Working time occasionally exceeds 60 hours/week. Consecutive work of 12 days without any rest days in April 2012 for some workers in accessory warehouse. |
| Safe and healthy working environment | Dormitory is too crowded. No chemical training provided for the employees working with chemicals. Some workers who should use protective equipment are not provided with these. Health checks for new workers are generally delayed. |
| Legally binding employment relationship | No areas for improvement found. |