



# Communication on Progress

2012

UN Global Compact



## Managerial Commitment

This is our first report to the Global Compact. We are excited to realize the next important step of our CSR strategy.

Spectre is a medium sized Danish company with its roots going back to 1947. Particularly since the nineties when we started outsourcing our production to Eastern Europe, we have seen an increasing international approach on a wide range of activities: our export is close to 100%, raw materials for the production are sourced and purchased all over the world – in USA, Europe and Asia – and our production is now based on two platforms in Latvia; Eastern Europe, and Vietnam; Asia.

For many years, we have worked with CSR – even before the term “CSR” existed. We have always had focus on good working conditions and tried to support the local community wherever we have operated. As a company we believe in taking part in the responsibility for the local society. We believe that employees spending a large part of their life working for the company are to be treated with respect and dignity.

We are a Danish company looking upon the business from a Danish viewpoint. One of our fundamental ambitions is to ensure that our employees have working conditions that are “above average” comparing with local standards in the countries of our operations.

Working in a labor intensive industry like garment production with the vast majority of our employees located in Latvia and Vietnam – and with many suppliers located in Asia – it has become increasingly important for us to find a structured and professional way of working with CSR.

In the end of 2010 we decided to apply for a membership of the UN’s Global Compact to show the surrounding world that we mean it seriously when we say we have a strong CSR profile. It is also a simple and efficient way to acknowledge our loyalty to the ten basic principles of the Global Compact.

Another important step was made in 2012 when we begun establishing a CSR team across borders, managed from Denmark to make sure our company “DNA” will remain intact and with team members locally in our production countries to help implementing the activities and strategies.

Our intentions are many: we want to keep a strong focus on our working conditions – both physically and psychologically, we want to start working much more goal oriented towards the external environment with particular focus on solid waste and energy efficiency. Further steps are working with our suppliers and our customers to ensure the whole value chain eventually is covered by our CSR programs. All activities, including our management system, are to be managed within the framework of an international CSR standardization program such as SA8000.

A part of the operational profit will be re-invested in current CSR activities and a constant upgrade of the working environment standards because we believe CSR is not only about ethics and high moral but also good business.

Jesper Klausen

Director Production and Supply Chain

## General Introduction

As this is our first Communication on Progress and we believe a short general introduction to our CSR status and strategy is appropriate. Spectre is a private label garment manufacturer within the outdoor sports wear industry. Being part of a production chain with factories in Asia and Eastern Europe we are aware of the importance of a strong emphasis on the Global Compact principles. This necessity is stressed by our customers, who are European brand owners, and the end users of our products; outdoor/sports enthusiasts, who seem particularly concerned about sustainability.

For several years Spectre has had a strong focus on CSR related issues but only recently initiated a more structured and systematic approach to CSR. The Spectre management has also been emphasizing some of the issues in the Global Compact which has resulted in notable impact at our factories compared to other factories in the garment industry. However, the strategy and policies are to be developed further in order to fully implement the ten principles of the Global Compact.

As a first step towards a strategic and systematic way of working with CSR a decision has been made to aim at obtaining a SA8000 certification. SA8000, created in 1997 by Social Accountability International, is an international standard for improving working conditions around the world. It is an auditable standard for a third-party verification system, setting out the voluntary requirements to be met by employers in the workplace, including workers' rights, workplace conditions, and management systems. The normative elements of this standard are based on national law, international human rights norms and the conventions of the ILO. We believe that we are somewhat close to meeting the requirements of this standard; however, we still lack some documentation for this.

The reason for choosing the SA8000 amongst a variety of certification possibilities is the highly relevant contents of the standard for our business.

Therefore, in 2011 a gap analysis was conducted in order to find out specifically where and what needs to be improved. This work has commenced and is an ongoing process but it is our hope that 2012 will be the year that we are SA8000 certified.

This year we have also commenced the measurement of our CSR efforts. We start out with enumerating external audits at our different factories, the energy consumption on heating/cooling and lights etc. It will be encouraging for us to see the development and improvements from year to year and at the same we keep track on our energy expenses.

## Human Rights Principles (1-2)

Spectre is a Scandinavian company with a positive view on human nature. This is reflected through a strong CSR profile regardless of the geographical location of our activities. In short we believe that people are to be treated with dignity irrespective of nationality, age, gender, race, religious or political belief. We want to create an attractive working place because satisfied employees create better results for the benefit of the working place, the employees and the customers.

We have initiated the formulation of a company policy in terms of employees' rights and human rights. In 2012 we continue the work with the formulation of the CSR strategy and the policies will be formulated in a more action oriented way. It is our goal that the policies will work as a guideline for managers in their decision making process during everyday tasks and in long term considerations. The most essential parts will be published on information boards around the factory, and they are an integrated part of our training efforts.

In 2012 we will prioritize the implementation of the Global Compact principles and our CSR strategy to our factories in Latvia. This will be done firstly through how-to-handle descriptions and manuals as we need to structure our initiatives and policies. Secondly, these will be followed up by a stronger cooperation between the head office and the factories through a cross national CSR team emphasizing the strategic focus on sustainable manufacturing.

External audits are conducted continually at our factories and subcontractors from the side of our customers in order to assure a safe and decent workplace also complying with the international human rights.

Our Code of Conduct is distributed to all our suppliers for signatures. The Code of Conduct is strongly related to the ten principles in the Global Compact and as such we are also demonstrating our participation in the Global Compact through this distribution. We are aware of being part of a value chain in which some of our raw material suppliers and their workers can be vulnerable in relation to human rights, labour standards and environmental issues. However, at this stage we have made the decision to focus our efforts on internal activities to avoid launching lots of well-intentioned initiatives without completing any of them.

## Labour Principles (3-6)

The labour force is the foundation of our business. Therefore, a solid founded and respected labour force ensures a solid and long term viable business. Professional, cheerful and encouraging leadership is appreciated.

The suppliers and subcontractors must comply with the ILO (International Labour Organization) conventions recommendations regarding the minimum age for workers which in general is the maximum age for compulsory schooling and child labour.

### *Work environment – head office*

At our head office employees mainly conduct office work and they have limited opportunity for physical motion during work tasks. Therefore, everybody has a height adjustable desk enabling them to switch between seating and standing positions. Further, a masseur is coming to our office each month giving all interested employees 15 minutes treatment paid by Spectre and a health check is offered once a year. Fresh fruit is also available every day.

Every month of September Spectre is being host at a Company Day for all employees. This day is dedicated to teambuilding, strategy orientation, status etc. and is at the same time an element in the nurturing of the fruitful working environment.

As a social and wholesome event Spectre encourages employees to participation in e.g. running events arranged by the local community or municipality for a small fee paid by the company. In June 2012 several employees, and their families, take part in a running/walking event which is held in relation to the opening of a highway bridge close to the head office.

At our head office in Denmark we have an informal staff association arranging social events for all employees interested in taking part of the association and the different events.

As a sponsor of the local football club, high school and cinema we take part in the important support of our local community where many of our employees and their children and spouses live and spend their life outside working hours. Once in a while the cinema draws lots for a few tickets for our employees, giving them an occasion for spending a nice evening together.

## ***Work environment – factories***

### *Health*

The physical working environment at our factories is much above average standard offering free medical treatment, modern machinery and equipment in the factory, proper lighting, air cooling system in Vietnam, air circulation mills in Latvia, proper chairs for an ergonomically correct working position, clean drinking water, proper lunch etc.

During 2011 we have had a fruitful cooperation with a significant customer regarding the physical working environment at Spectre Latvia. Knowledge has been shared across the two companies in a learning oriented way and as a direct result of this, ergonomic work stations has been installed for all the workers at the factory. We will use this positive cross-company experience as an example for the future development on the CSR area.

At Spectre Latvia we provide meal tickets of 50 santimi as a contribution to the employees' meals during work. A three course meal is offered from the canteen at the total prize of 2 Lats, and employees can buy one, two or three courses. At the factory in Vietnam we offer a free meal per day.

### Innovation & Development

One of our core competences is the strong strategic focus on technical development in the production methods. Our machinery at the factories in Latvia and Vietnam are continually updated to the newest in the business leading to a safer working environment with reduced risk of injuries and accidents. Some machines are developed and build by a close partner of the company. These machines are developed over longer periods of time and always with a strong safety interest either by developing a special safety installation or by incorporating risk prevention in the design.

### Training

We carry out several training courses on different levels of the operation such as language, vocational training, technological knowledge and understanding, administrative duties and commercial understanding. Providing skills to employees will give them a greater chance to keep the job, make a career and to earn an attractive salary.

One of our challenges in terms of training is sharpening our focus on behavioral change. We will need to consider motivational aspects for our employees in the education and training within

working environment as it is our experience that safety devices such as earmuffs are not always utilized as required.

## Environmental Principles (7-9)

During 2011 a substantial renovation of our factory, Spectre Latvia, has been completed. This initiative was taken in order to upgrade the standard and gaining reduction in energy consumption related to heating/cooling, lights, ergonomics, labour safety etc. We have invested EUR 386 955 (excl. VAT) in the upgrade totally and we received an EU grant of EUR 212 293 after finishing the project.

All the results of this investment are not yet documented but this task will be conducted in 2012 giving us a more quantitative picture of the improvements. However, the planned reduction in CO2 emissions was 1.662 kg CO2/EUR and we had a estimated thermal or electric energy consumption decrease of 44,8%.

As the most extended action taken a new building has been constructed expanding our site at Spectre Latvia. Further, the walls and roof of the old building was updated with regards to insulation, lights and ventilation. In the sewing department the ceiling lamps and the working lamps have been changed into energy saving lamps.

The general heating was changed from fossil fuels, oil and gas, to wooden heating which is a renewable source of energy. Taking this step we are reducing the emission of CO2 which is linked to the problem of global climate change.

Besides, the company is offering bus transportation where appropriate and alternatively company cars, where 4 people gather, to avoid that people are running one in each car polluting more than necessary.

We have initiated investigations on waste management issues especially with regards to our core business of garment manufacturing. At the moment we have 20-23% production waste (fabric) and we suspect that reduction of this amount is possible leading to both environmental and financial benefits. We are also planning to look into the possibility of reusing the waste for other purposes.



## Anti-corruption Principles (10)

The last principle of the Global Compact stating that “Businesses should work against corruption in all its forms, including extortion and bribery” is part of our Code of Conduct which is translated into Latvian and Vietnamese and put up at the factories in the two countries. So far we have not had any challenges concerning this issue but we are aware that it must be included in the continuing implementation of our CSR strategy and the Global Compact.



## A few facts about the company

### HISTORY

Private label manufacturer

100% family owned

Functional clothing & leisure wear

Main segments: Outdoor, alpine, running

Head office in Ikast, Denmark:

- Sales, sourcing, logistics, planning and strategic management

1947 Established by Thomas Poulsen

1982 Anny and Evald Klausen took over company

1992 Production Latvia

2003 Generational change Jakob and Jesper Klausen

2009 Production Vietnam, Joint Venture

Spectre Latvia = 100% owned by Spectre

Auce= 81% owned by Spectre

Spectre Vietnam= 55% owned by Spectre (joint venture with local partner)

2005 ⇒ Lamination technology introduced.

2008 ⇒ Automatic cutter system implemented.

2009 ⇒ Bonding/hotair technology and laser cutter implemented.

2010 ⇒ Automatic spreader implemented

### EMPLOYEES (RMG)

(CMT excluded = Ocean, Kruise, Erla, Elas)

CATEGORY	LATVIA (per summer 2011)	VIETNAM (per summer 2011)
Seamstresses	270	65
Cutting dept	20	12
Embroidering/printing/ lamination	40	5
Packing and control	25	6
Technical staff (pattern making/merchandisers/ purchasing/supervisors/ mechanics/development)	75	9
Administrative (administration/financial/ management/warehouse)	30	3
Total	460 ->480	100

Subcontractors in LV: 100-120 persons (Nov. 2011).

*Salaries production workers:*

Per month: LV approx 450,- EUR incl taxes

Per month: VN approx 140,- EUR incl taxes

*Working hours:*

LV 40 h/week + overtime max 50h

VN 48 h/week + overtime max 58h

### CSR

Internal training programs

Language courses

Medical help

Free bus transportation

Company clothing

Christmas party

Modern machinery and equipment

Individual aid to employees with special needs

Coordinated programs with customers

Full compliance with international conventions (ILO)

Member of UN's Global Compact since 2010

Planning SA8000 certification 2012-2013

*Efficiency*

Latvia ave. 80-90%

Vietnam ave. 70%

### PRODUCTION

Advanced production technology

Öko-Tex 100 certificated for specific product categories

Bluesign fabric upon request

*Machinery*

Automatic cutter

Semi-automatic spreading machine

Tables with air

Overlock 3/4/5 thread

Stitching ½ needle

Flat seam (>40 flatlock machines in LV)

Cover stitch 2/3/4 needle

Various special machines

Total 360 sewing machines in LV

Total 80 sewing machines in VN

Embroidery  
 Heat transfer printing  
 Pocket laminating  
 Ultrasonic cutting devices  
 Laser cutting machines  
 Hotair bonding machines  
 Steam pressing machines

#### *NOS*

NOS Program fabrics and/or garments on the basis of individual agreements with the customer

#### **CAPACITY**

##### **Latvia (established 1992)**

20-30.000 pcs of fleece/softshell jackets per MONTH *and*  
 25-30.000 pcs of technical underwear/4-way stretch PER MONTH

##### **SEWING LINES LV:**

###### *SPECTRE Latvia:*

2 lines Kalnciems

5 lines Rezekne

4 lines external at permanent subcontractors

###### *EK Auce:*

3 lines Auce

1 line Jelgava

2 lines external at permanent subcontractors

##### **Vietnam (established 2009)**

Joint venture 2009-2010

Ownership 55% Spectre DK 45% Minh Tri

2700 sq m (JV) (total factory 12.000 sq m)

Sample room

100 employees in joint venture, 175-200 planned for 2012

2 pattern makers, further to be recruited in 2011-12

7-10.000 pcs of fleece items per MONTH *or*

5.000-7.000 pcs of soft shell jackets per MONTH *or*

20-30.000 pcs of technical T-shirts per MONTH

##### **SEWING LINES VN:**

2 lines

3<sup>rd</sup> line to be established Feb./March 2012

4<sup>th</sup> line to be established summer 2012

Estimated plan is 2-3 lines extra for 2013

#### **QUALITY**

Quality assurance:

- In line QC
- End line QC
- Final inspection (AQL)
- Independent QA

#### **CSR**

Member of Global Compact from 4Q 2010

SA8000 certification planned for 2011.

Lunch and accommodation paid by company

Ongoing activities (e.g. company trips, chairs, sleeping mats etc)

Air ventilation system

Further details upon request