

2010

# FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** adidas-Group, Knights Apparel

**COUNTRY:** Honduras

**FACTORY CODE:** 74002912391

**MONITOR:** GMIES

**AUDIT DATE:** November 1 – 2, 2010

**PRODUCTS:** T-Shirts, Sweaters, Kids' Apparel **PROCESSES:** Fabric Receiving and Downloading;

Cutting; Sewing; Embroidery; Printing; Packing;

**Exporting** 

**NUMBER OF WORKERS: 5050** 



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<sup>\*</sup>Indicates a Notable Feature



### Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Overtime **Compensation and Bonuses**

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

#### **Noncompliance**

- Explanation: 1. There is no documentary evidence that employees working for 3 years or more at factory receive all 15 days -or more- of vacation that Article 346 of the Code of Labor requires. Payrolls did not show that these employees are granted with all the legal period for vacations. 60% of interviewed workers confirm they have less than 10 vacation days per year, when they think they should have more. Management assured that employees receive all vacation days, but in different periods through the year; however, no documentary evidence supporting that was shown.
  - 2. Factory does not take account the average of the last 6 months' salaries, which must include overtime and bonuses, in order to calculate legal benefits as vacations, 13th and 14th month salary (Articles 352 and 361 of Code of Labor and Article 6 of Fourteenth Month Salary in Concept of Social Compensation Regulations). Factory only applies basic salary, excluding overtime and bonuses.
  - 3. Factory does not have a childcare facility, when it is mandatory by law to have one when workplace has more than 20 female workers who are mothers (Article 59 of Law for Equal Opportunities for Women and Article 140 Code of Labor).

#### Plan Of Action:

- 1. Factory management must ensure to provide full vacation leave to all workers based on their seniority.
- 1A. A tracking system should be created to track number of vacation days taken throughout the year to ensure that all workers take full vacation leave.
- 1B. Copy of vacation leave requests to be maintained in workers' files indicating when workers take their vacation leave throughout the year.
- 1C. Factory management to create a vacation policy indicating how many days workers are entitled for vacation/year based on their seniority, when vacation leave will be provided and how workers may request to take their vacation leave.
- 2. Factory management must ensure that vacation, 13th and 14th month bonuses are paid in accordance to law. PC is currently reviewing case with Ministry of Labor (MOL) to verify how all 3 benefits should be calculated and paid.



3. Honduran Law for Women and Adolescents states that childcare provision must be shared between government, employers, and workers. Currently, there are limited existing childcare facilities and few functioning models (according to the law) we can request the factory to implement in the short term. This issue will be discussed with factory owners to identify a long term solution to this issue, as this legal requirement is not implemented by the industry nor enforced by governments.

Deadline Date:

04/08/2011

Supplier CAP:

Factory June 2012 Update: HR Department keeps track of all vacation taken by all employees. Each individual vacation time is calculated based on Honduran Labor Law depending on seniority. Not all individuals are entitled to the same vacation time each year. Every time an employee takes time off for vacation they receive a formal memo describing the beginning and end dates of their vacation; the employee has to sign to demonstrate agreement. With this CAP, sample copies of said memo sent to FLA for review. Company follows Honduran Law Guidelines regarding Vacation Payment and Timeline. Not all employees started working in our factory at the same time; therefore, each one will be entitled to their vacation time only after they have 1 full year of employment. In the case of [Employee name], she becomes eligible for 20 days of vacation on June 25. Up until May, she has 17 days of vacation time. She will get her last 3 days of vacation for the current year before June 25. Please keep in mind that only employees with 4 or more years of seniority are entitled to 20 vacation days per year.

<u>Factory December 2011 Update</u>: Copies of vacation leave schedules that are being used to plan and schedule vacation time for all employees sent to FLA for review. Employees' vacation days are calculated according to Honduran Law and based on the employee's seniority: 10 vacation days for employees with 1 year seniority; 12 days for 2 years seniority; 15 days for 3 years seniority; and 20 days each year for employees with 4 or more years seniority. HR and Plant Managers are in charge of scheduling vacation time for all employees using this criteria.

<u>Factory September 30, 2011 Update</u>: Clarification: Despite the fact that local labor law does not require factory to use production bonuses to calculate yearly bonuses, [Factory name] actually calculates such bonuses, averaging both ordinary salary plus production bonuses. Factory does this as a better practice initiative.



<u>Factory March 2011 Update</u>: Vacation time is determined by Honduras Labor Code. It varies according to seniority from 10 calendar days for employees with 1 year of seniority to 20 calendar days for employees with 4 or more years. All employees enjoy vacation time during the year. Wages paid during vacation time are calculated according to Honduras MOL standards. The same applies to 13th and 14th bonus payments. Factory complies with local law regarding leave of absence for pregnant women, providing 42 days paid leave of absence before childbirth and 42 days after. Factory also provides 1 hour a day nursing time for an additional 6-month period as per Honduras Law. In addition to Social Security system, factory provides a free health care clinic on site that treats all employees' relatives and dependents, including infants and children.

# Action Taken:

adidas-Group July 2012 Comments: Please note that vacation leave is clear. The question regarding [Employee name] was that as of December 2011 update, she was only given 6 of the 20 vacation days she was eligible to (November 7 – 12). As per Article 346 of the Labor Code, workers should receive 20 days of consecutive time off.

1. In order to close this case, please indicate: a) when did [Employee name] begin working at the factory (i.e., June 25 of what year); b) for 2011 – 2012 year, when did she take vacation leave; c) according to Article 346, the days must be consecutive, and it appears that days are given throughout the year; and d) as per Article 348, workers must be told 10 days in anticipation of vacation leave. In December, a memo about this was written the day before vacation, and in March 2012, 3 days before vacation.

adidas-Group February 2012 Comments: Ongoing. According to management update, factory is scheduling and providing workers' vacation based on seniority. Examples of vacation leave schedule received. SEA Team to physically verify how factory schedules and provides vacation (up to 20 days/year). Please note that vacation examples did not verify that workers were receiving full vacation leave. I.e., [Employee name] received 6 vacation days (November 7 - 12); however, she was entitled to 20 days. When did she rest the other 14 days?

#### adidas-Group October 3, 2011 Comments:

- 1. Pending. Please note that this remediation point is regarding vacation leave. Factory management must ensure to schedule and provide full vacation leave to all workers based on the worker's seniority.
- 1A. Pending. No update received. Management must create and manage a tracking system to ensure all workers receive their full vacation leave throughout the year. Under no circumstances should workers be allowed or asked to work part of their vacation.
- 1B. Pending. No update received. Vacation benefits are included in induction sheet. However, they should be summarized in a policy that indicates not only how many vacation days workers are entitled to, but how many will be calculated and given.
- 3. Pending. No update received.



#### adidas-Group March 31, 2011 Comments:

1A – 1C. Pending. No update received.

- 2. Completed. According to Honduran Code, 13th/14th month bonus should be based on workers' ordinary wages and does not require OT/production bonus to be included in the average of workers' wages.
- 3. Pending. No update.

Plan	No
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**Complete:** 

Plan Complete

Date:

#### Wages, Benefits and Overtime Compensation: Deposit of Legally Mandated Deductions

WBOT.13 All legally mandated deductions for taxes, social insurance, or other purposes shall be deposited each pay period in the legally defined account or transmitted to the legally defined agency. This includes any lawful garnishments for back taxes, etc. The employer shall not hold over any of these funds from one pay period to the other unless the law specifies that deposits are to be made less frequently than pay periods (e.g., monthly deposits, weekly pay). If the law does not specify, then deposits shall be made before the next pay period in all cases. (S)

#### **Noncompliance**

Explanation: Delayed payment of Social Security payroll for December 2009 corroborated. Payment

should have been made on January 20, 2010, but factory paid it on February 2, 2010.

Plan Of This was an isolated case. However, factory management to ensure all payments to ISSS

**Action:** are made on their due date.

**Deadline** 04/08/2011

Date:



Supplier CAP:

<u>Factory March 2011 Update</u>: Social Security Payroll payment for December 2009 was processed the same way it is always done. Check was cut and deposited in time, but our local bank mistakenly delayed payment to Social Security Institution. Problem was detected and corrected within 12 days and a fine was paid. We pointed out to auditors that this is the only time a delay has occurred and that it was an error by the bank. Benefits to our workers were never suspended or affected by this error.

Supplier

02/03/2011

**CAP Date:** 

**Action** adidas-Group October 5, 2011 Comments: Factory is currently paying IHSS in full as per

**Taken:** documentation verification.

Plan Yes

**Complete:** 

Plan Complete

Date:

#### Wages, Benefits and Overtime Compensation: Employer Provided Services

WBOT.16 All workers have a right to use or not to use employer provided services, such as housing or meals. Deductions for services to workers shall not exceed the cost of the service to the employer. Employers must be able to demonstrate the accuracy or reasonableness of these charges. (P)

#### **Notable Feature**

**Explanation:** Factory pays 6 daily lempiras (USD \$0.32) for transportation to all employees who

attend their work.



### Freedom of Association: Anti-Union Discrimination/Dismissal, Other Loss of Rights, and **Blacklisting**

FOA.12 Employer shall not engage in any act of anti-union discrimination, i.e. shall not make any employment decisions which negatively affect a worker, based wholly or in part on a workers' union membership or participation in union activity, including the formation of a union, previous employment in a unionized facility, participation in collective bargaining efforts or in a legal strike. Employment decisions include: hiring; termination; job security; job assignment; wages; bonuses; allowances; compensation and benefits; promotion; downgrading; transfer; (vocational) training; discipline; and assignment of work and conditions of work. The use of blacklists used to contravene the exercise of the right to Freedom of Association (FOA) also constitutes anti-union discrimination. (S)

#### **Uncorroborated Evidence of Noncompliance**

**Explanation:** Gathered information showed that it is a practice at this factory to dismiss employees who are involved in union activities. Workers who want to be fired, in order to receive their relevant severance, act like they are willing to form a union, but their intention is to be dismissed and receive the relevant payment of severance. 80% of workers and supervisors interviewed confirmed that. According to these interviews, it is a practice that, in December of every single year, workers who want to leave the factory (but without resigning) "look for a reason to be dismissed." As these workers know that trying to form a union implies dismissal, they talk with other employees inviting them to form a union. But, they do this so the management can know and fire them.

#### Plan Of Action:

- 1. Factory management to immediately discontinue this practice and any additional practices that may obstruct or violate workers' freedom of association such as (but not limited to): terminations and/or blacklisting.
- 2. Factory management to designate a responsible person within its management team to draft a clear and direct freedom of association and collective bargaining policy. Policy should indicate that workers will not be penalized for exercising their right to organize.
- 3. Once policy is completed, please submit to adidas-Group SEA Team for review.
- 4. Once policy is finalized, it should be verbally communicated to all managers, supervisors and workers during induction trainings and annual refresher course.

Deadline

04/08/2011

Date:



# Supplier CAP:

<u>Factory June 2012 Update</u>: Factory does not discourage employees from attempting to join a legal organization. This is a baseless and unsupported allegation. Factory has presented a firm and clear policy expressing support of employees' decisions to either join or not join any organization. Factory has made this policy public. There are no records of any person either employed or formerly employed in the factory that has ever filed a complaint about this issue. WRAP guidelines, adidas-Group Guidelines and every other customer's guidelines clearly express the same policy. These guidelines are prominently displayed in the factory. An updated copy of the "Freedom of Association Policy" has been sent to the FLA for review.

<u>Factory December 2011 Update</u>: Factory policy clearly states that employees are free to either join or not join ANY association. Policy lists, by name only, associations that currently receive funding or financial support from the factory. 3 files sent to the FLA for review: 1) copy of the FOA Company Policy; 2) an outline of topics discussed during meetings with all employees including company benefits, grievance procedures, vacation pay and Employee Co-op; and 3) a copy of the pamphlet given to every factory employee, listing all relevant information about Company Policy including FOA and WRAP guidelines.

<u>Factory September 30, 2011 Update</u>: Copies of photos from latest meeting with operators to discuss this wrong perception sent for review. All employees leaving the factory receive a severance package and all sign a document declaring the reasons why they are leaving. Our Employee Manual describes the company policy regarding this issue.

<u>Factory March 2011 Update</u>: Factory and WRAP COCs both already specifically address this issue and clearly state that our company respects the right of workers to join or not join, belong or not belong to any type of association. All employees that choose to leave our company or are terminated, for any reason, receive severance payments. We have zero complaints regarding this issue. We will schedule meetings with our workers and repeat the information they all get during the induction process about our COC and WRAP principles. We will document these meetings and provide you with a report.

### Action Taken:

<u>adidas-Group July 2012 Comments</u>: Please note that this allegation was confirmed by 3 separate audits (FLA's, External Monitor, and internal audit). Information gathered in all 3 visits revealed that the factory has the practice described by the FLA audit.

- 1-3. Copy of Freedom of Association policy sent for review; however, it does not indicate anything about workers' ability to collectively bargain.
- 4. Pending. Once policy is finalized, it should be verbally communicated to all managers, supervisors and workers during induction trainings and annual refresher course. It is imperative that all managers, supervisors, and workers know, understand and respect factory's FOA policy.



#### adidas-Group February 2012 Comments:

- 1 3. Pending. Please note that this policy does not address the original noncompliance found. Current policy makes it seem that factory only accepts and respects current organizations (co-op) or sports clubs. Factory's FOA policy should clearly indicate their commitment to respecting workers' FOA, including their ability to unionize should workers choose to do so. Factory's policy should clearly indicate their commitment to respect this right and that no retaliation will be taken against workers who choose to exercise this right under the parameters established by the local law.
- 4. Once FOA policy is amended, it should be verbally communicated to entire workforce. Copy of training materials/sign-up sheets/photos to be received.

#### adidas-Group October 5, 2011 Comments:

- 1. No update. Factory management to address issue of workers' termination for attempting or pretending to form a trade union. Under no circumstance should workers be terminated or receive any sort of retaliation for organizing within legal framework.
- 2-3. Factory has provided a copy of the FOA policy that indicates that management respects workers' decision to join or not join associations of their choosing. Examples of associations mentioned in policy include co-ops, sports teams, social groups. Policy does not include trade unions. Factory management to include trade unions to this policy. Additionally, factory should include workers' rights to collectively bargain.
- 4. To be completed once FOA policy is finalized.

#### adidas-Group March 31, 2011 Comments:

- 1. Pending. No update regarding December/June terminations received.
- 2. Pending. Please provide copy of Freedom of Association (FOA) policy indicating factory management's commitment to respecting and allowing this right to workers.
- 3. Pending. Please indicate when all workers (including all managers and supervisors) have been provided a verbal communication of the FOA policy.

	3. Pending. Please provide copy of all trainings documents (training materials, photos, sign-up sheets).
Plan Complete:	No
Plan Complete Date:	



#### Freedom of Association: Grievance Procedure

FOA.26 Employer shall have in place written grievance procedures that allow first an attempt to settle grievances directly between the worker and the immediate supervisor but that, where this is inappropriate or has failed, it is possible for the worker to have the grievance considered at one or more steps, depending on the nature of the grievance and the structure and size of the enterprise. Employers shall ensure that the grievance procedures and applicable rules are known to workers. (P)

#### **Noncompliance**

#### **Explanation:**

Record review found no evidence of any written grievance procedure. Management explained that employees can raise their grievances verbally or through suggestion boxes that are in place, and that HR and production managers are responsible for the follow up. 100% of interviewed workers said that they would talk with their supervisors and immediate chiefs in order to set a complaint; however, 45% of interviewed workers assured they have complaints with management, but their grievances are not solved. 65% assured that to complain to management is useless.

#### Plan Of Action:

- 1. Factory management must provide a clear and concise grievance procedure for workers to use to report grievances directly to management.
- 1A. Policy should include who workers may report grievances to in a confidential and non-confidential manner. 1B. How grievances will be investigated and by whom.
- 1C. Timeline for investigations results and how they will be reported back to workers.
- 1D. Policy should clearly indicate that workers who report grievances to management would not receive any retaliation.
- 1E. Policy should also have procedures for management to keep track of grievances in order to identify patterns and or persistent problems, as well as to track remediation. Metrics may include: number of grievances, number of persistent grievances, seriousness of grievances, grievance investigation reports, meeting agenda and notes.
- 2. Once policy is created, it should be verbally communicated to all managers, supervisors and workers. Communication should be provided during induction training upon hire and during annual refresher course of policy training and COC.
- 3. Factory management to provide documentation of trainings (training modules, photos, sign-up sheets).

Deadline

04/08/2011

Date:



# Supplier CAP:

<u>Factory June 2012 Update</u>: A copy of improved Disciplinary Procedures Policy has been sent to the FLA for review. It includes a list of possible disciplinary actions; list of all minor and serious offenses; and a description of the appeal process, which includes internal and external reviews of the disciplinary decision. A copy of the procedure to file grievances has been sent for review.

<u>Factory December 2011 Update</u>: All points listed in the adidas-Group comments are addressed in the factory's "Open Door Policy," including confidentiality and non-retaliation disclaimers. Each complaint is reviewed and feedback is given on a one-on-one basis with every person who reports a grievance. Documentation in writing is available. All managers receive training about this issue through seminars. A copy of the grievance policy, Worker Handbook, and a copy of the grievance sheet used have been sent for review.

<u>Factory September 2011 Update</u>: A copy of the [Factory name] Grievance Policy and SOP and a copy of the Employee Handbook has been sent to the FLA for review.

<u>Factory March 2011 Update</u>: Factory has a formal grievance procedure in place. The employee handbook, [Factory name] Labor Ministry Approved Code of Conduct, and specific SOP manuals, all provide documentation of said policy. Based on recommendation from auditors, factory has included a record keeping folder located at the HR office to document formal complaints from operators starting March 25, 2011.

#### **Action**

#### adidas-Group July 2012 Comments:

Taken:

1B – C. Completed. Amended policy indicates how and who will be investigating grievances. Also, policy indicates that results will be communicated back to worker directly or by operations manager through worker-management meetings whenever a grievance is not confidential.

2-3. Pending. Factory management to provide copy of trainings (training materials, photos, sign-up sheets) once induction trainings and annual refresher course on factory policies are scheduled and provided.

#### adidas-Group February 2012 Comments:

1A, 1C - D. Completed. Procedimiento de Quejas indicate how workers may report grievances, including how to report a grievance in a confidential manner (suggestion box). Additionally, this policy highlights that workers will not receive retaliation for reporting grievances.

1B – C. Factory's Procedimiento de Quejas does not indicate how grievances will be investigated.



- 2 3. Pending. Factory management to provide verbal training to all managers, supervisors and workers on both policies to ensure that all workers know how to file grievances. Training should also ensure those responsible for resolving grievances know how to investigate them and how responses should be provided. Factory management to review section on Suggestion Boxes under Section 4.7.5 of 2010 version of adidas-Group Employment Guidelines.
- 3. Factory management to provide copy of trainings (training materials, photos, signup sheets) once induction trainings and annual refresher course on factory policies are scheduled and provided.

#### adidas-Group October 5, 2011 Comments:

- 1. Ongoing. Copy of "Politica de Puertas Abiertas" and "Canal Alternativo from worker handbook and copy of "Procedimiento de Quejas" received. However, they do not indicate the following: a) how workers may report grievances in a confidential manner; b) how grievances will be investigated, especially those reported in a confidential manner; c) how investigation results will be reported back to workers; d) clear indication that workers who report grievances to management would not receive any retaliation; and e) how factory is to keep track of grievances received and their remediation in order to ensure they are properly resolved. Also, factory should review areas where grievances are reported to avoid risks of ongoing problems in certain areas.
- 2-3. Pending. Factory management to provide verbal training to all managers, supervisors and workers on both policies to ensure that all workers know how to file grievances. Training should also ensure those who are responsible for resolving grievances know how to investigate them and how responses should be provided. Factory management to review section on suggestion boxes under Section 4.7.5 of 2010 version of adidas-Group Employment Guidelines.
- 3. Factory management to provide copy of trainings (training materials, photos, signup sheets) once induction trainings and annual refresher course on factory policies are scheduled and provided.

#### adidas-Group March 31, 2011 Comments:

- 1. Please note that a written procedure was not available during visit. Please submit to SEA Team to ensure that it includes points A-D of original remediation plan.
- 2. Pending. No update received.
- 3. Pending. No update received.

Plan Complete: No



Plan
Complete
Date:

#### Harassment or Abuse: Discipline/Progressive Discipline

H&A.2 Employers shall have a written system of progressive discipline (e.g., a system of maintaining discipline through the application of escalating disciplinary action moving, for instance, from verbal warnings to written warnings to suspension and finally to termination). Any exceptions to this system (e.g., immediate termination for gross misconduct, such as theft or assault) shall also be in writing and clearly communicated to workers. (P)

#### **Noncompliance**

**Explanation:** Management revealed there is no written system of progressive discipline in place.

Plan Of

1. Factory management to name a responsible person to draft a progressive

**Action:** disciplinary procedure.

1A. Policy should clearly spell out how the disciplinary system works, why workers may receive a disciplinary action (types of offenses vs. what type of disciplinary actions).

- 1B. How workers may appeal a disciplinary procedure received.
- 1C. How disciplinary actions will be documented.
- 2. Once policy is created, it should be verbally communicated to all managers, supervisors and workers. Communication should be provided during induction training upon hire, and during annual refresher course of policy training and COC.
- 3. Factory management to provide documentation of trainings (training modules, photos, sign-up sheets).

Deadline

04/08/2011

Date:



# Supplier CAP:

<u>Factory June 2012 Update</u>: A copy of improved Disciplinary Procedures Policy has been sent to the FLA for review. It includes a list of possible disciplinary actions; list of all minor and serious offenses; and a description of the appeal process, which includes an internal and external reviews of the disciplinary decision. Also sent for review, a copy of the procedure to file grievances.

<u>Factory December 2011 Update</u>: New SOP is being drafted. Estimated date for this document to be ready January 30, 2012.

<u>Factory September 2011 Update</u>: Copies of [Factory name] Disciplinary System as per our Ministry of Labor-approved Internal Policy Guidelines have been sent for review.

<u>Factory March 2011 Update</u>: Employee Handbook, [Factory name] Labor Ministry-approved COC, and specific SOP manuals describe a progressive disciplinary procedure. Disciplinary actions start with a verbal admonishment, then there is formal written admonishment, then a suspension from work, and finally, dismissal. All disciplinary actions are in accordance with Honduran Law and WRAP standards. Disciplinary procedures are explained during induction process.

### Action Taken:

#### adidas-Group July 2012 Comments:

- 1. Completed. HR provided a copy of Disciplinary Procedures indicating who will be responsible for: a) investigating disciplinary procedures; b) issuing/filing warning letters; and c) the appeal process.
- 2 3. Pending.

#### adidas-Group October 5, 2011 Comments:

- 1. Ongoing. Factory provided copy of Reglamento Interno indicating disciplinary procedures. However, it should include the following: a) how disciplinary actions are investigated; b) who will issue disciplinary actions (from verbal to termination); c) steps for how workers may appeal any disciplinary action; and d) how disciplinary actions will be documented.
- 2. Once policy is created, it should be verbally communicated to all managers, supervisors and workers. Communication should be provided during induction training upon hire, and during annual refresher course of policy training and COC.
- 3. Factory management to provide documentation of trainings (training modules, photos, sign-up sheets).

#### adidas-Group March 31, 2011 Comments:

1. Pending. Please provide copy of progressive disciplinary procedure in order to verify that it includes points A-C of original remediation plan.



- 2. Pending. Communication on disciplinary procedures/appeal system should be verbally communicated not only during induction, but at least once annually to ensure entire workforce knows and understands the procedures. Special attention should be given to managers/supervisors responsible for implementing disciplinary procedures to ensure they are implemented consistently and fairly.
- 3. Factory management to provide documentation of trainings (training modules, photos, sign-up sheets).

Plan No

Complete:

Plan Complete Date:

#### Harassment or Abuse: Discipline/Written Disciplinary System

H&A.5 Employers shall maintain a system of written disciplinary rules, procedures and practices. Disciplinary rules, procedures and practices shall be clearly communicated to all workers. (P)

#### **Noncompliance**

**Explanation:** Factory does not have a discipline system in place. According to management, it is not necessary to have a discipline system, because if factory sanctions employees, they could be fired without receiving severance, and for management it is important to grant such right to all workers. When employees have bad behavior, management talks with them; if behavior does not improve, the workers are dismissed. There is no other disciplinary procedure in place.

Plan Of Action:

- 1. Factory management to name a responsible person to draft a progressive disciplinary procedure.
- 1A. Policy should clearly spell out how disciplinary system works, why workers may receive a disciplinary action (types of offenses vs. what type of disciplinary actions).
- 1B. How workers may appeal a disciplinary procedure received.
- 1C. How disciplinary actions will be documented.



- 2. Once policy is created, it should be verbally communicated to all managers, supervisors and workers. Communication should be provided during induction training upon hire and during annual refresher course of policy training and COC.
- 3. Factory management to provide documentation of trainings (training modules, photos, sign-up sheets).

Deadline

04/08/2011

Date:

### Supplier CAP:

<u>Factory June 2012 Update</u>: Copy of improved Disciplinary Procedures policy sent to the FLA for review. It includes a list of possible disciplinary actions; list of all minor and serious offenses; and a description of the appeal process, which includes an internal review and an external review of the disciplinary decision. Also sent for review, a copy of the procedure to file grievances.

<u>Factory December 2011 Update</u>: New SOP is being drafted. Estimated date for this document to be ready: January 30, 2012.

<u>Factory September 2011 Update</u>: Copies of the [Factory name] disciplinary system as per our Ministry of Labor-approved internal Policy Guidelines sent for review.

<u>Factory March 2011 Comments</u>: Employee Handbook, [Factory name] Labor Ministry-approved COC, and specific SOP manuals describe a progressive disciplinary procedure. Disciplinary actions start with a verbal admonishment, then progress to a formal written admonishment, a suspension from work and, finally, a dismissal. All disciplinary actions are in accordance with Honduran Law and WRAP standards. Disciplinary procedures are explained during induction process.

#### **Action**

#### adidas-Group July 2012 Comments:

Taken:

1A – 1C. Completed. Factory provided copy of newly improve disciplinary procedures indicating: a) reasons one may receive a disciplinary action, from a verbal warning to a termination; b) how a disciplinary procedure may be appealed; and c) how disciplinary actions will be documented.

#### 2 - 3. Pending.

#### adidas-Group October 5, 2011 Comments:

1. Ongoing. Factory provided copy of Reglamento Interno indicating disciplinary procedures for review. However, it should include: a) how disciplinary actions are investigated; b) who will issue disciplinary actions (from verbal to termination); c) steps for how workers may appeal any disciplinary action; and d) how disciplinary actions will be documented.



- 2. Once policy is created, it should be verbally communicated to all managers, supervisors and workers. Communication should be provided during induction training upon hire, and during annual refresher course of policy training and COC.
- 3. Factory management to provide documentation of trainings (training modules, photos, sign-up sheets).

#### adidas-Group March 31, 2011 Comments:

- 1. Pending. Please provide copy of progressive disciplinary procedure in order to verify that it includes points A C of original remediation plan.
- 2. Pending. Communication on disciplinary procedures/appeal system should be verbally communicated not only during induction, but at least once annually, to ensure entire workforce knows and understands procedures. Special attention should be given to managers/supervisors responsible for implementing disciplinary procedures to ensure that they are implemented consistently and fairly.

Plan Complete:	No	
Plan Complete Date:		



#### Harassment or Abuse: Discipline/Verbal Abuse

H&A.11 Employers shall not use any form of verbal violence, including screaming, yelling, or the use of threatening, demeaning, or insulting language, as a means to maintain labor discipline. (S)

#### **Noncompliance**

**Explanation:** 60% of interviewed workers revealed that verbal abuse is displayed at the factory. Supervisors pointed to as those responsible for verbal abuse: 1) [Employee name], who is in charge of Modules 4 and 5 of [Municipality name] Department, 2) [Employee name], who is in charge of Module 15 of [Municipality name] Department, 3) [Employee name] who is in charge of Tackle Area, and 4) A chief whose named is [Employee name]. The verbal abuse consists of screaming and talking in a rude way. These workers said that the insults happen very often.

#### Plan Of Action:

- 1A. Factory management to draft and adopt a harassment and abuse (H&A) policy prohibiting all types of H&A (verbal, sexual, psychological, etc.).
- 1B. Policy should include how workers may report instances of H&A to management.
- 1C. Policy should also include steps to address instances of H&A committed by anyone within the workforce (workers, managers and supervisors).
- 2. Factory management should provide verbal training to all new employees in "induction" training as well as in annual policy training to current employees.
- 3. Documentation to be maintained by factory management for review (training materials and sign-up sheets).

### Deadline

04/08/2011

Date:

#### Supplier CAP:

Factory December 2011 Update: Factory policy includes psychological abuse. All managers and supervisors have received training on H&A. Files containing H&A Policy, Seminar documentation, Annual Seminar Schedule and Sign Sheets for seminars sent to the FLA for review.

Factory September 30, 2011 Update: Emotional intelligence seminars have continued. All supervisors and managers have received at least 4 hours of additional training in 2011. Last external audit performed by ITS and supervised by FLA representative (September) did not find any comments regarding this issue.



<u>Factory March 2011 Update</u>: Since 1991, factory has had a policy in place that deals with instances or cases of both verbal and/or physical abuse. Our internal COC and WRAP principles describe and detail similar policies. The Company's Employee Handbook, published in 2005 and updated in 2007, also describes policy in detail. Currently, factory has SOP to report abuse that goes from verbal reports to formal complaints to anonymous complaints. Training materials and periodic training is provided to all managers and supervisors. At least 2 seminars have taken place in the last 5 months. Operations Director addressed issue with all employees in a public forum at the end of 2010 and will address it once more with all employees before Easter break. Disciplinary action has been taken towards 2 supervisors found at fault regarding this issue in the past 5 months.

### Action Taken:

adidas-Group July 2012 Comments: Pending. No update received by factory.

#### adidas-Group February 2012 Comments:

1A – 1C. Completed. Copy of "Politica de Acoso, Abuso y Descriminacion prohibits instances of psychological abuse sent for review.

2. Ongoing. Factory provided training to managers and supervisors on "Inteligencia Emocional." Factory management must ensure to provide clear and conciser verbal training on factory policies in addition to "Inteligencia Emocional." All workers, managers, and supervisors must receive training on Harassment and Abuse Policy and Disciplinary Procedures (once completed).

#### adidas-Group October 3, 2011 Comments:

1A-B. Ongoing. Copy of H&A policy prohibiting instances of H&A and indicating how workers may report any instances to senior management was received for review. However, H&A policy should include psychological abuse.

2. Ongoing. Factory provided training on "Intelligence Emotional" to a number of supervisors. Trainings on this topic will continue throughout 2011 to ensure that all managers and supervisors receive this training. However, no verbal training provided regarding harassment and abuse policy to all managers, supervisors and managers. Factory management to create a training program for induction trainings and annual refresher course that contains the factory's harassment and abuse policy among all HR policies and Workplace Standards. Note to factory: Please note that this issue was reported by the FLA during their 2010 FLA IEM; as a result, statement above is incorrect.

#### adidas-Group March 31, 2011 Comments:

- 1. Pending. Please provide copy of harassment and abuse policy.
- 2. Pending. Please provide copy of grievance system to verify such contains points B-F of original remediation plan.



- 3. Pending. Please provide copy of disciplinary procedures.
- 4. Ongoing. Factory indicates that training has taken place; however, the following documentation was not submitted: training materials, photos, sign-up sheets. Please confirm if trainings have also included managers and supervisors.

Plan No Complete:

Plan Complete Date:

#### Harassment or Abuse: Punishment of Abusive Workers/Supervisors/Managers

H&A.16 Management shall discipline anyone (including managers, supervisors or fellow workers) who engages in any physical, sexual, psychological or verbal violence, harassment or abuse, regardless of whether such action was intended as a means to maintain labor discipline. Such discipline could include (combinations of) compulsory counseling, warnings, demotions and termination. (P)

#### **Noncompliance**

**Explanation:** Workers who have reported verbal abuse displayed by supervisors assured that the factory has never disciplined these supervisors for their behavior.

Plan Of Action:

- 1A. Factory management must provide workers' procedures to report instances of harassment and abuse in a confidential manner. This can be included in the grievance procedures required in this action plan.
- 1B. Factory management to include disciplinary procedures for anyone found guilty of committing any form or harassment and abuse.
- 1C. Disciplinary procedures should include "zero tolerance" issues in regards of H&A that may merit immediate termination as well as remediation requirements for workers who are found guilty of H&A (training on how to manage and/or lead workers, proper disciplinary procedures, etc.).
- 2. Once grievance procedures, harassment and abuse, and disciplinary procedures are created, please forward to participating companies for their review.



- 3. Once policies are finalized, factory management should provide verbal training to all new employees in "induction" training, and annual policy training to current employees. Special attention should be given to managers and supervisors on H&A and disciplinary procedures to ensure they know and understand their level of power.
- 4. Documentation to be maintained by factory management for review (training materials and sign-up sheets).

Deadline

04/08/2011

Date:

Supplier CAP:

<u>Factory June 2012 Update</u>: Copy of improved Disciplinary Procedures Policy sent to FLA for review. It includes a list of possible disciplinary actions; list of all minor and serious offenses; and description of appeal process, including internal and external reviews of disciplinary decision. Also, sent for review, a copy of procedure to file grievances.

<u>Factory December 2011 Update</u>: All points in adidas-Group comments addressed in the factory's "Open Door Policy," including confidentiality and non-retaliation disclaimers. Each complaint is reviewed and feedback is given on a one-on-one basis with every person reporting a grievance. Documentation in writing is available. All managers receive training about this issue through seminars. Copy of grievance policy, Worker Handbook, and grievance sheet used sent for review.

<u>Factory September 30, 2011 Update</u>: Emotional intelligence seminars have continued. All supervisors and managers have received at least 4 hours of additional training in 2011. Last external audit performed by ITS and supervised by FLA representative did not find any comments regarding this issue. Copy of [Factory name] grievance policy, company policy towards H&A, SOP, Employee Handbook sent for review.

<u>Factory March 2011 Update</u>: Since 1991, factory has had policy in place that deals with instances or cases of both verbal and/or physical abuse. Our internal COC and WRAP principles describe and detail similar policies. Company's Employee Handbook (published 2005, updated 2007) also describes policy in detail. Currently, factory has SOP to report abuse that goes from verbal reports to formal complaints to anonymous complaints. Training materials and periodic training provided to all managers and supervisors. At least 2 seminars have taken place in last 5 months. Operations Director has addressed the issue with all employees in a public forum at the end of 2010 and will address it once more with all employees before Easter break. Disciplinary action taken towards 2 supervisors found at fault regarding this issue in the past 5 months. Factory has formal grievance procedure in place. Employee Handbook, [Factory name] MOLapproved COC and specific SOP manuals, all provide documentation of said policy. Based on recommendation from auditors, factory has included a record-keeping folder located in HR office to document formal complaints from operators starting March 25, 2011.



Action Taken:

#### adidas-Group July 2012 Comments:

1A. Completed. Factory provided amended copy of "Procedimiento de Quejas" (grievance procedure), which includes how grievances will be investigated and reported back to worker.

- 1B. Pending. Current disciplinary procedures do not include anything regarding disciplinary procedures for any instances of H&A (verbal, physical, sexual, or psychological) from managers/supervisors to workers, and amongst workers.
- 1C. Completed. Factory provided copy of zero tolerance issues which are essentially based on Article 112 of the Labor Code for review.
- 2. Please provide copy of disciplinary procedures.
- 3. Pending. Once policies are finalized, factory management should provide verbal training to all new employees in "induction" training, and annual policy training to current employees. Special attention should be given to managers and supervisors on H&A and disciplinary procedures to ensure they know and understand their level of power.

#### adidas-Group February 2012 Comments:

- 1A. Ongoing. Procedimiento de Quejas indicates how workers may report grievances, including how to report them in a confidential manner (suggestion box). Additionally, this policy highlights that workers will not receive retaliation for reporting grievances. However, factory's Procedimiento de Quejas does not indicate how grievances will be investigated.
- 1B-C. Please provide copy of disciplinary procedures once completed. Disciplinary procedures are in the process of being drafted.
- 2. Pending. Please provide copy of amended grievance procedures/disciplinary procedures.
- 3 4. Factory management to provide verbal training to all managers, supervisors and workers on both policies to ensure that all workers know how to file grievances and that management knows and understands how to implement disciplinary procedures. Factory management to review section on Suggestion Boxes under Section 4.7.5 of 2010 version of adidas-Group Employment Guidelines. Factory management to provide copy of trainings (training materials, photos, sign-up sheets) once induction trainings and annual refresher course on factory policies are scheduled and provided.



#### adidas-Group October 5, 2011 Comments:

1A. Ongoing. Factory provided copy of "Politica de Puertas Abiertas" and "Canal Alternativo" from worker handbook and copy of "Procedimiento de Quejas" for review. However, they do not indicate: a) how grievances will be investigated; b) how investigation results will be reported back to workers; c) that workers who report grievances to management would not receive any retaliation (policy should clearly indicate this); and d) that factory management is to designate a responsible person to review all grievances and to identify trends that need to be addressed via the suggestion box.

1B. Ongoing. Factory provided copy of Reglamento Interno indicating disciplinary procedures for review. However, it should include: a) how disciplinary actions are investigated; b) who will issue disciplinary actions (from verbal to termination); c) steps for how workers may appeal any disciplinary action; d) how disciplinary actions will be documented; and e) types of harassment/abuse that may result in the termination of a manager or supervisor.

2 – 4. To be completed once H&A and Disciplinary Procedures are amended.

#### adidas-Group March 2011 Comments:

1A. Pending. Please provide written procedures for how workers may report any instances of harassment/abuse (and/or other grievances) to [Factory name's] senior management in a confidential manner.

1B – 1C. Please provide copy of disciplinary procedures that include steps for anyone to take if verbal harassment of another employee is discovered, including instances of verbal harassment committed by managers and supervisors. Disciplinary procedure should also clearly indicate zero tolerance behaviors that may merit an immediate termination. Finally, please provide examples of remediation steps taken for when managers/supervisors have been found to improperly manage workers.

2. Pending. Copy of 3 procedures not submitted.

nl - ..

3-4. Ongoing. Factory indicates that training has taken place; however, the following documentation was not submitted: training materials, photos, sign-up sheets. Please confirm if trainings have also included managers and supervisors.

Complete:	NO					
Plan Complete						
Date:						



#### Non-Discrimination: General Compliance Non-Discrimination

D.1 Employers shall comply with all local laws, regulations and procedures concerning nondiscrimination. (S)

#### **Noncompliance**

**Explanation:** Management has not hired required legal number of workers with a disability: 4 workers with a disability for each 100 employees (Article 2 of Law of Employment Promotion for People with Disability). The presence of just 6 workers with disabilities was corroborated at facilities when there must be, at least, 204 employees with a disability.

#### Plan Of Action:

Factory to develop system for posting announcements and recruiting disabled workers.

- 1. Factory to communicate on a regular basis with organizations working with disabled workers and local stakeholders such as the Honduran Institute of Social Security whenever openings become available in order to ensure disabled workers are communicated to about job openings.
- 2. Factory management should also indicate in all of its job postings (newspaper, online, signs, etc.) their commitment to non-discrimination.

### Deadline

04/08/2011

Date:

#### Supplier CAP:

Factory June 2012 Update: Factory has recruited people with disabilities and is currently approaching a local school for the deaf and encouraging students there to apply for a job in our factory. Currently, 1 person working on our sewing lines with a hearing disability made it to 100% efficiency; we think more people with the same disability will likely be inspired by her success and agree to join our workforce.

Factory December 2011 Update: All persons applying for a job at the factory are given the same treatment and the same opportunity to get a job. People with disabilities are currently employed at the factory; there are simply not enough people with a disability applying for jobs to comply with quotas established in the law.

Factory September 30, 2011 Update: Resolved.

Factory March 2011 Update: Factory does not ask potential employees or existing employees if they consider themselves disabled. We give all people equal opportunity to apply for a job and do not discriminate against people with disabilities. Please keep in mind that the spirit of the law is to force companies to provide equal opportunity to the disabled, which, as per local labor authorities, [Factory name] is currently doing. Factory policy is to allow all applicants to undergo the hiring process. Applicants are given an employment opportunity based on merit alone.



Action Taken:

<u>adidas-Group July 2012 Comments</u>: In your next update, please indicate the number and percentage of workers with a disability currently hired by the factory. Indicate if any workers have been hired recently in order to increase the percentage.

adidas-Group February 2012 Comments: Pending. Although a sufficient number of workers with a disability may be applying for jobs at the factory, factory management should take active steps to recruit workers. Factory management should review the original remediation plan. If the factory does not take an active role in meeting this legal requirement, it may continue to not meet it.

adidas-Group October 5, 2011 Comments: Pending. See March 2011 Comments.

adidas-Group March 2011 Comments: Please note that the remediation update does not address the fact that currently [Factory name] does not meet legal requirements as per Article 2 of Law of Employment Promotion for People with Disability. As a result, factory management should review points 1-2, in addition to any steps they see fit, to promote more disabled workers to apply to [Factory name] in order to increase the number of disabled workers at the factory.

Plan No Complete:

Plan Complete Date:



#### Non-Discrimination: Pregnancy Testing

D.6 Employers shall not use pregnancy tests or the use of contraception as a condition of hiring or of continued employment. Employers shall not require pregnancy testing of female workers, except as required by national law. In such cases, employers shall not use (the results of) such tests as a condition of hiring or continued employment. (S)

#### **Uncorroborated Evidence of Noncompliance**

Explanation: Factory has its own clinic where new workers have medical checkups to determine if their health status is compatible with the tasks they would perform. Besides, factory conducts urine drug tests on all workers, regardless of whether they are female or male. However, some interviewed workers said that factory also conducts pregnancy tests. One clinic nurse revealed that factory conducts pregnancy tests, but she could not provide any documentary evidence because lab sends results of tests directly to management; the lab is not in the facilities. Clinic staff is just responsible for taking samples. These tests are practiced both during recruitment process with new workers and through workers' regular employment. No information about what happens when someone is found to be pregnant could be collected.

#### Plan Of Action:

- 1. Factory management must not conduct medical checkups during application process. All health related tests/questions may be conducted after worker has been hired. Under no circumstances should pregnancy and AIDS/HIV tests be conducted during application process.
- 2. Results of health tests should not be used for termination.
- 3. Test results should be kept in a confidential manner.

### Deadline

04/08/2011

Date:

#### **Supplier** CAP:

Factory December 2011 Update: Drug testing is voluntary and requested because of new post 9 - 11 guidelines regarding trade between the USA and Honduras. Testing is random and positive results are shared with the individual employee. HR Manager must know the results in order to comply with the reason for testing, which is to avoid the possibility of a drug addict having access to products that will be loaded into US-bound containers. All drug testing is performed after the employee has been hired. Drug testing is the only test being conducted.



<u>Factory September 30, 2011 Update</u>: Currently there are 91 women pregnant in factory, 69 on maternity leave and 92 enjoying 1 hour a day breastfeeding leave of absence. Drug testing is performed to comply with C-TPAT and new security standards by US authorities and at the request of customers. In-house clinic's main objective is to provide additional free medical care for all employees and their children. Copies of medical appointments at the in-house clinic sent for review. This is a better practice item and not a must-improve issue.

Factory March 2011 Update: Medical checkups are mandatory for all employees because our on-site medical staff require one to open a file for every person working at factory. The reason for this is to have enough information about everyone in case of an accident or an event that requires medical staff to prescribe a treatment. Random drug testing is required by our customers because it is a C-TPAT requirement. Employees subjected to drug testing sign an authorization that is kept on file. Factory does not conduct pregnancy tests during or after hiring process. Factory has a very aggressive campaign to educate our workforce that pregnancy tests are not a requirement for employment. All health-related questions asked by MD are within latitude allowed by Honduran law. AIDS testing is not performed or requested by factory as a requisite for employment. All medical records kept at clinic or Social Security Hospital are kept confidential.

# Action Taken:

<u>adidas-Group February 2012 Comments</u>: Per factory update, all drug tests being conducted after hire. Verification of drug testing procedures to be reviewed during next factory visit.

<u>adidas-Group October 5, 2011 Comments</u>: Please note that original finding regarded possible health-related/pregnancy tests conducted during application process. Per adidas-Group standards, workers should not receive pregnancy tests during application process. All health-related tests conducted after hire should be kept confidential between factory clinic and worker; results of tests should not be shared with HR Staff. Health results are sent directly to management.

#### adidas-Group March 2011 Comments:

1. Ongoing. Should medical checkups be mandatory by factory policy, they should not be conducted until after hire, in order to diminish risk of discriminatory practices. Please disclose what medical tests are currently conducted (aside from drug testing).

Plan No Complete:



Plan
Complete
Date:

#### **Code Awareness:**

GEN.1 Establish and articulate clear, written workplace standards. Formally convey those standards to Company factories as well as to licensees, contractors and suppliers.

#### Noncompliance

Explanation: By observation tour, it was corroborated that there was not adidas-Group Code of

Conduct (COC) in the place.

Plan Of Note from adidas-Group: As of 2007, adidas-Group stopped requiring factories to post Action:

our Workplace Standards, as often factories would not properly train workers on COC

content.

Therefore, factory management has been requested to:

1. Provide verbal trainings on adidas-Group Workplace Standards to all managers, supervisors, and workers during induction and annual refresher courses. Copy of adidas-Group Workplace Standards was given to factory in 2008 and 2010;

- 2. Factory management to provide copy of verbal trainings provided (training modules, sign-up sheets, photos);
- 3. Factory management to conduct post-training surveys to ensure entire workforce understands content of the training, including the COC portion.

Deadline

04/08/2011

Date:



# Supplier CAP:

<u>Factory June 2012 Update</u>: Factory respectfully disagrees with said statement that WRAP principles do not cover all adidas-Group Workplace Standard Provisions. The only principle that differs adidas-Group Workplace Standards from WRAP is the one regarding the minimum age for employment; one is 15 and the other is 14 years old. This point is already addressed by the Minimum Age Policy that factory uses to clearly define the age as 18 or older. Factory does agree that wording on both sets of principles are not identical, but the meaning and substance are. Factory's policy is to set its business practices according to the highest industry standards. All factory employees are treated the same way, no matter what brand of product they are making.

<u>Factory December 2011 Update</u>: adidas-Group Workplace Standards are posted in prominent areas of factory. Standards are discussed and explained during induction process and every employee receives a copy of WRAP guidelines, which are similar to adidas-Group Standards. Factory has many customers and all provide their own COC posters; all are displayed side by side to each other in the same places. Workers assigned to adidas-Group products are not exclusive to adidas-Group. Factory policy has chosen to use WRAP Standards as the factory standard and uses this name to explain the standards to all employees.

<u>Factory September 2011 Update</u>: Photos of displayed Reebok, adidas and FLA COCs sent to the FLA for review. Trainings for all supervisors, instructors and operators have continued in 2011.

<u>Factory March 2011 Update</u>: SLD-Reebok COC is displayed on production floor, as are WRAP and [Factory name] COCs. These codes all share the same principles and standards as the adidas COC. Training is provided to all employees during the induction period. Factory will conduct retraining seminars and use posters to educate all employees during the course of the year 2011, and make sure everyone understands these principles. HR and compliance office have documented the training.



# Action Taken:

adidas-Group July 2012 Comments: Pending. Please note that it is an adidas-Group requirement that all of its factories verbally train its workers, managers and supervisors on the content of the adidas-Group for workers to know and understand the adidas-Group standards. Additionally, please note that indicated below, the WRAP 12 Principles are not the same as the Workplace Standards. Although they cover the same topics and share content, they are not the same.

Below is a comparison of some of the differences:

#### **Forced Labour**

WRAP Principle: Facilities will not use involuntary, forced or trafficked labor.

adidas-Group: Business partners must not use forced labor, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee may be compelled to work through force or intimidation of any form, or as a means of political coercion or as punishment for holding or expressing political views.

#### **Child Labour**

*WRAP*: Facilities will not hire any employee under the age of 14 or under the minimum age established by law for employment, whichever is greater, or any employee whose employment would interfere with compulsory schooling.

adidas-Group: Business partners must not employ children who are less than 15 years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

#### **Discrimination**

WRAP: Facilities will employ, pay, promote, and terminate workers on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs.

adidas-Group: Business partners must not discriminate in recruitment and employment practices. Decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline and termination must be based solely on ability to perform the job, rather than on the basis of personal characteristics or beliefs, such as race, national origin, gender, religion, age, disability, marital status, parental status, association membership, sexual orientation or political opinion. Additionally, business partners must implement effective measures to protect migrant employees against any form of discrimination and to provide appropriate support services that reflect their special status.



#### Wages and Benefits

WRAP: Facilities will pay at least the minimum total compensation required by local law, including all mandated wages, allowances and benefits.

adidas-Group: Wages must equal or exceed the minimum wage required by law or the prevailing industry wage, whichever is higher, and legally mandated benefits must be provided. In addition to compensation for regular working hours, employees must be compensated for overtime hours at the rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding the regular hourly compensation rate. Wages are essential for meeting the basic needs of employees and reasonable savings and expenditure. We seek business partners who progressively raise employee living standards through improved wage systems, benefits, welfare programmes and other services, which enhance quality of life.

#### Freedom of Association

WRAP: Facilities will recognize and respect the right of employees to exercise their lawful rights of free association and collective bargaining.

adidas-Group: Business partners must recognise and respect the right of employees to join and organize associations of their own choosing and to bargain collectively. Business partners must develop and fully implement mechanisms for resolving industrial disputes, including employee grievances, and ensure effective communication with employees and their representatives.

#### **Hours of Work**

WRAP: Hours worked each day, and days worked each week, shall not exceed the limitations of the country's law. Facilities will provide at least one day off in every seven-day period, except as required to meet urgent business needs.

adidas-Group: Employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week including overtime or the local legal requirement, whichever is less. Employees must be allowed at least 24 consecutive hours rest within every seven-day period, and must receive paid annual leave.



#### <u>Disciplinary Practices (or Harassment and Abuse under WRAP's code)</u>

WRAP: Facilities will provide a work environment free of supervisory or co-worker harassment or abuse, and free of corporal punishment in any form.

adidas-Group: Employees must be treated with respect and dignity. No employee may be subjected to any physical, sexual, psychological or verbal harassment or abuse, or to fines or penalties as a disciplinary measure. Business partners must publicise and enforce a non-retaliation policy that permits factory employees to express their concerns about workplace conditions directly to factory management or to us without fear of retribution or losing their jobs.

adidas-Group February 2012 Comments: Pending. Please note that WRAP Principles do not cover all of the adidas-Group Workplace Standards provisions (please see Forced Labour; Child Labour; Discrimination; Wages and Benefits; Freedom of Association; Hours of Work; Disciplinary Practices (or Harassment and Abuse under WRAP's code); HSE; environment). As a result, factory's current practice does not meet the adidas-Group standards. Factory management should review the COC's content and take the highest standard in order to meet clients' requirements. Please note that it is expected that all workers in the factory are treated within the standards of the adidas-Group COC, regardless of the product they are making.

<u>adidas-Group October 5, 2011 Comments</u>: Please note that the Reebok poster posted is no longer applicable, as it was replaced by the adidas-Group Workplace Standards in 2007. All Reebok COCs should be removed. Factory management to provide verbal training during induction and annual refresher trainings to all managers, supervisors and workers on content of the adidas-Group Workplace Standards.

<u>adidas-Group March 31, 2011 Comments</u>: Please note that as of 2007, Reebok COC was replaced with adidas-Group COC; it was sent to factory in 2007.

- 1. Ongoing. According to factory's update, COC training is provided during induction. Please ensure that training on the adidas-Group is provided once annually to all managers, supervisors and workers as indicated in original remediation plan.
- 2. Pending. No update received.

Plan	No					
Complete:						
-						
Plan						
Complete						
Date:						



#### **Code Awareness:**

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

#### **Noncompliance**

**Explanation:** There is no documentary evidence showing that employees are informed and educated

on FLA-affiliated companies' standards. It was corroborated from 100% of interviews

with workers.

Plan Of <u>Factory management to</u>:

Action: 1. Provide verbal training on adidas-Group Workplace Standards to all managers,

supervisors and workers during induction and annual refresher courses. A copy of the

adidas-Group Workplace Standards was given to the factory in 2008 and 2010.

2. Factory management to provide a copy of the verbal trainings provided (training modules, sign-up sheets, photos). 3. Factory management to conduct post-training surveys to ensure the entire workforce understands the content of the training,

including the COC portion.

Deadline

04/08/2011

Date:

Supplier CAP:

Factory June 2012 Update: Factory respectfully disagrees with the said statement that WRAP principles do not cover all adidas-Group Workplace Standard Provisions. The only WRAP principle that differs from the adidas-Group Workplace Standards is the one regarding the minimum age for employment. One states 15 years old as the minimum age allowed for a factory worker, the other states 14 years old. This point is already addressed by the Minimum Age Policy that the factory uses, that clearly defines the minimum age as 18 or older. Factory does agree that the wording of both sets of principles is not identical, but that the meaning and substance is. Factory's policy is to set its business practices according to the highest industry standards. All factory employees are treated the same way, no matter what brand of product they are making.



<u>Factory December 2011 Update</u>: adidas-Group Workplace Standards are posted in prominent areas of factory. Standards are discussed and explained during the induction process, and every employee receives a copy of the WRAP guidelines, which are similar to the adidas-Group Standards. Factory has many customers and they all provide their own COC posters. All are displayed side by side to each other in the same places. The workers assigned to the adidas-Group product are not exclusive to the adidas-Group. The factory has chosen to use WRAP Standards as the factory standard, and uses this name to explain the standards to all employees.

<u>Factory September 2011 Update</u>: Photos of displayed Reebok, adidas and FLA COCs sent to the FLA for review. Training for all supervisors, instructors and operators has continued in 2011.

<u>Factory March 2011 Update</u>: FLA and adidas-Group standards are similar to WRAP and factory's COCs. Training is already implemented in the induction process. Since the factory provides training for operators that will be working on products from several different clients, it has been designed to contain general rules that apply to all of them.

### Action Taken:

adidas-Group July 2012 Comments: Pending. Please note that it is an adidas-Group requirement that all of its factories verbally train its workers, managers and supervisors on the content of the adidas-Group standards for workers to know and understand them. Although providing training on all COCs, it is imperative that the entire workforce understands the standards for which all factories are held accountable. Additionally, please note that indicated below, the WRAP 12 Principles are not the same as the Workplace Standards. Although they cover the same topics and share content, they are not the same.

Below is a comparison of some of the differences:

#### **Forced Labour**

WRAP Principle: Facilities will not use involuntary, forced or trafficked labor.

adidas-Group: Business partners must not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee may be compelled to work through force or intimidation of any form, or as a means of political coercion or as punishment for holding or expressing political views.



#### Child Labour

*WRAP*: Facilities will not hire any employee under the age of 14 or under the minimum age established by law for employment, whichever is greater, or any employee whose employment would interfere with compulsory schooling.

adidas-Group: Business partners must not employ children who are less than 15 years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

#### **Discrimination**

WRAP: Facilities will employ, pay, promote, and terminate workers on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs.

adidas-Group: Business partners must not discriminate in recruitment and employment practices. Decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline and termination must be based solely on ability to perform the job, rather than on the basis of personal characteristics or beliefs, such as race, national origin, gender, religion, age, disability, marital status, parental status, association membership, sexual orientation or political opinion. Additionally, business partners must implement effective measures to protect migrant employees against any form of discrimination and to provide appropriate support services that reflect their special status.

#### Wages and Benefits

*WRAP*: Facilities will pay at least the minimum total compensation required by local law, including all mandated wages, allowances and benefits.

adidas-Group: Wages must equal or exceed the minimum wage required by law or the prevailing industry wage, whichever is higher, and legally mandated benefits must be provided. In addition to compensation for regular working hours, employees must be compensated for overtime hours at the rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding the regular hourly compensation rate. Wages are essential for meeting the basic needs of employees and reasonable savings and expenditure. We seek business partners who progressively raise employee living standards through improved wage systems, benefits, welfare programmes and other services, which enhance quality of life.



#### Freedom of Association

WRAP: Facilities will recognize and respect the right of employees to exercise their lawful rights of free association and collective bargaining.

adidas-Group: Business partners must recognise and respect the right of employees to join and organize associations of their own choosing and to bargain collectively. Business partners must develop and fully implement mechanisms for resolving industrial disputes, including employee grievances, and ensure effective communication with employees and their representatives.

#### **Hours of Work**

*WRAP*: Hours worked each day, and days worked each week, shall not exceed the limitations of the country's law. Facilities will provide at least one day off in every seven-day period, except as required to meet urgent business needs.

adidas-Group: Employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week including overtime or the local legal requirement, whichever is less. Employees must be allowed at least 24 consecutive hours rest within every seven-day period, and must receive paid annual leave.

<u>Disciplinary Practices</u> (or <u>Harassment and Abuse</u> under WRAP's code)

WRAP: Facilities will provide a work environment free of supervisory or co-worker harassment or abuse, and free of corporal punishment in any form.

adidas-Group: Employees must be treated with respect and dignity. No employee may be subjected to any physical, sexual, psychological or verbal harassment or abuse, or to fines or penalties as a disciplinary measure. Business partners must publicise and enforce a non-retaliation policy that permits factory employees to express their concerns about workplace conditions directly to factory management or to us without fear of retribution or losing their jobs.

adidas-Group February 2012 Comments: Pending. Please note that WRAP Principles do not cover all of the adidas-Group Workplace Standards provisions (please see Forced Labour; Child Labour; Discrimination; Wages and Benefits; Freedom of Association; Hours of Work; Disciplinary Practices (or Harassment and Abuse under WRAP's code); HSE; Environment). As a result, factory's current practice does not meet the adidas-Group standards. Factory management should review the COCs and take the highest standard in order to meet clients' requirements. Please note that it is expected that all factory workers are treated within the standards of the adidas-Group COC, regardless of the product they are making.



adidas-Group October 5, 2011 Comments: Please note that Reebok poster posted is no longer applicable as such was replaced by adidas-Group Workplace Standards in 2007. Factory management to provide verbal training during induction and annual refresher trainings to all managers, supervisors and workers on content of the adidas-Group Workplace Standards. Also, all Reebok COCs should be removed.

- 2. Factory management to provide copy of verbal trainings provided (training modules, sign-up sheets, photos).
- 3. Factory management to conduct post-training surveys to ensure the entire workforce understands the content of the training, including the COC portion.

<u>adidas-Group March 31, 2011 Comments</u>: Please note that as of 2007, the Reebok COC was replaced with the adidas-Group COC; it was sent to the factory in 2007.

- 1. Ongoing. According to factory's update, COC training is provided during induction. Please ensure that training on the adidas-Group is provided once annually to all managers, supervisors and workers as indicated in original remediation plan.
- 2. Pending. No update received.
- 3. Pending. No update received.

Plan	No
Complete:	

Plan Complete Date:



#### **Code Awareness:**

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

#### **Noncompliance**

Explanation: There is not a confidential noncompliance reporting mechanism for workers to contact

the FLA-affiliated companies directly.

Plan Of Action:

<u>Note from the adidas-Group</u>: In 2010, factory management was provided with the adidas-Group SEA Hotline poster containing our SEA Hotline contact info, indicating that any information received will be treated confidentially.

1. Such poster should be posted in various public areas of the factory, in addition to private ones such as restrooms. Location of posters to be verified by PC.

2. Additionally, during factory visits, adidas-Group SEA Team provides factory with business cards during interviews containing Regional Monitor's contact information.

Deadline

04/08/2011

Date:

Supplier CAP:

<u>Factory September 201 1 Update</u>: For FLA review, picture sent of 1 of the adidas-Group's

SEA Hotline posters displayed on the production floor.

<u>Factory March 2011 Update</u>: Factory has included in WRAP posters a contact name and email address of local Compliance Manager to provide workers with an additional way to report noncompliance issues. SLD-Reebok Code of Conduct with the name, phone number and email address of adidas-Group Contact person is currently on display at the

factory.

Supplier CAP Date:

10/05/2011

Action

adidas-Group October 5, 2011 Comments: Completed. Factory management has posted

**Taken:** copy of the adidas-Group SEA Hotline poster containing contact info to SEA Team.



#### adidas-Group March 31, 2011 Comments:

1. Pending. Please note that in 2007, Reebok requested its former code of conduct to be removed. In 2009, the adidas-Group and Reebok's Licensed Division provided all of our active factories with SEA Hotline posters to post. 2 separate emails were sent to [Factory name] with such information. Additionally, copy of SEA Hotline poster was left behind with HR Team during last visit. If it was not received, please alert SEA Team to resend SEA Hotline poster.

Plan Yes

Complete:

Plan Complete Date:

#### **Health and Safety: Sanitation in Factory Facilities**

H&S.22 All facilities including factory buildings, toilets, canteens, kitchens, and clinics, shall be kept clean and safe and be in compliance with all applicable laws, including relevant sanitation, medical and safety and health regulations. (S)

#### **Uncorroborated Evidence of Noncompliance**

Explanation: During the 2 days of the audit, toilets were clean. However, 75% of interviewed workers revealed that usually, the bathrooms are dirty; however, before an audit, management orders to clean them. Management admitted that they cut the water service for 2 hours every morning; interviewed workers think that this is the main reason why bathrooms are dirty.

Plan Of Action:

- 1. Factory management should not turn off water in the mornings in order to keep restrooms properly functioning and clean at all times.
- 2. Factory management to designate a responsible maintenance person to ensure all restrooms are properly maintained and equipped at all times.

Deadline

04/08/2011

Date:



# Supplier CAP:

<u>Factory December 2011 Update</u>: Plant managers are responsible for verifying that daily bathroom maintenance occurs. Social Compliance and Corporate Responsibility Manager, [Employee name] is ultimately responsible. [Employee email address]

<u>Factory September 30, 2011 Update</u>: Copies of bathroom maintenance schedule sent to FLA. There were no reports of complaints about bathrooms during our last ITS-FLA supervised audit.

<u>Factory March 2011 Update</u>: Bathroom maintenance is an ongoing process; it happens throughout the day and includes washing; disinfecting both toilets and floors; resupplying soap and toilet paper. There is a formal cleaning schedule. Only during cleaning and maintenance are the toilets unavailable to users. However, there are always other restrooms for all personnel to use. At no time is the water supply cut off, with the exception of a request from maintenance personnel.

### Supplier CAP Date:

02/14/2012

### Action Taken:

adidas-Group February 2012 Comments: Completed per factory update.

- 1. The water is kept on for the bathrooms.
- 2. Factory's compliance management is responsible for ensuring that restrooms are properly cleaned 3 times a day.

<u>adidas-Group October 5, 2011 Comments</u>: Please note that this issue was found by the FLA.

2. Factory submitted a schedule for cleaning the bathrooms; they are cleaned 3 times a day. To be verified during next visit.

#### adidas-Group March 31, 2011 Comments:

- 1. Per factory update, water supply is not turned off. To be verified during next visit.
- 2. Pending. Please indicate who is responsible for ensuring restrooms are kept clean and properly working at all times.

Plan Yes Complete:

Plan Complete Date:



#### **Hours of Work: Time Recording System**

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

#### **Noncompliance**

**Explanation:** Factory does not have a reliable and accurate time-tracking system for employees; subsequently, there were several corrections and mistakes found in the original time tracking records. In some cases, the time workers get in to or leave the factory could not be clearly read because of hand-made corrections by administrative personnel in charge of keeping time-tracking records. The review sample was comprised of time records from 20 employees over the last 4 months. Even though interviewed employee did not complain about payments not being calculated based on all time worked, they recognized this a problem with the time tracking machine.

#### Plan Of Action:

- 1. Factory management to install a proper time-recording system to ensure hours of work and wages are properly recorded and verified.
- 2. Factory management to ensure workers clock in and clock out at both the beginning and the end of the workday to ensure all hours of work (HOW) are properly calculated.

#### Deadline

04/08/2011

Date:

#### **Supplier** CAP:

Factory June 2012 Update: New time-keeping system is operational. All direct labor sewing employees are now clocking in and clocking out using the biometric system. Managers have received additional training; subsequently, it is easier for HR to keep track of the number of hours worked by employees.

Factory December 2011 Update: New time-recording system (biometric) is being installed. Installation will be completed March 2012.

Factory September 30, 2011 Update: [Factory name] is in the process of replacing current gum sheet-based time-tracking system with a new one using biometric scanners. System is in the implementation phase; the first 4 modules are already in training. [Factory name] expects the old system to be completely replaced by March 30, 2012.



<u>Factory March 2011 Update</u>: Our time-keeping record is one that requires the use of "gum sheets," where employees clock in and clock out via a clock with a printer. To these sheets, they can attach "coupons" that help accounting determine their efficiency and how much incentive they are to be paid. The system requires managers and supervisors to sign off on those "gum sheets." Factory management has reviewed the time-recording system currently in place during identified cases when manual input was required and has been working to eliminate the need for manual input of data onto the gum sheets. There are daily reviews of all deviations of this procedure; individual comments and observations from operators are addressed via HR departments. System is reliable and works. A new more modern time-keeping system is being considered for 2012.

Action Taken:

<u>adidas-Group July 2012 Comments</u>: Effectiveness of time-recording system to be verified during next visit.

<u>adidas-Group October 5, 2011 Comments</u>: Factory is in the process of changing its time-recording system; this is scheduled to be completed by March 2012.

#### adidas-Group March 31, 2011 Comments:

1. Although the current time-recording system works, it was found to have some mistakes, as found during the FLA audit. For example, clock-in and clock-out times were not legible due to handwritten changes made by factory management. Factory management to review original remediation plan and ensure that any handwritten changes do not affect clock-in and clock-out records.

Plan Complete:	No
Plan	

Complete Date:



#### Hours of Work: Extraordinary Business Circumstance/Forced Labor

HOW.11 In case of extraordinary business circumstances, employers shall make reasonable efforts to secure voluntary overtime work prior to mandating involuntary overtime. Employers must get workers voluntary consent periodically for all overtime that is above the 12 hours as provided for in the Code and that is not due to extraordinary business circumstances. (P)

#### Noncompliance

Explanation: On the payroll for October 11-17, 2010, 5 cases were found where employees worked

more than 60 hours (3 worked 61 hours; 1 worked 62.5 hours; 1 worked 63.5 hours).

These cases belong to 3 different factory departments.

Plan Of

1. Factory management to create a hours of work tracking system to ensure workers do

**Action:** not surpass daily and weekly limits.

2. Responsible person/persons should be designated to track workers' HOW, so once workers have surpassed the legal limits, they are neither asked nor allowed to work OT.

Deadline

04/08/2011

Date:

Supplier CAP:

<u>Factory June 2012 Update</u>: New time-keeping system is operational. All direct labor sewing employees are now clocking in and clocking out using the biometric system. Managers have received additional training; subsequently, it is easier for HR to keep track of the number of hours worked by employees and to make sure no one is over the 60 hour per week limit.

<u>Factory September 30, 2011 Update</u>: Trainings for managers and supervisors have continued. Last third-party independent audit (by ITS, supervised by FLA), found no workers with more than 60 hours of work in 1 week. Factory expects that new biometric time-keeping system will assure that this issue does not occur again in the future.

**Action** 

adidas-Group July 2012 Comments: Effectiveness of tracking system to be reviewed

**Taken:** during next visit.

adidas-Group October 5, 2011 Comments:

1. Pending. No update received.

2. Pending. No update received.

Plan No

Complete:



Plan			
Complete			
Date:			