



**COMPANY:** The Northwest Company LLC.  
**COUNTRY:** China  
**ASSESSMENT DATE:** 10/22/14  
**MONITOR:** Openview Service Limited  
**PRODUCTS:** Housewares  
**PROCESSES:** Full [= full package], Embroidery  
**NUMBER OF WORKERS:** 600  
**NUMBER OF WORKERS INTERVIEWED:**  
**ASSESSMENT NUMBER:** AA0000000561

## FLA Comments

"FLA Comment: This report was submitted to the FLA and the FLA affiliated company by the assessor. Despite deadline reminders and extensions for submission of a corrective action plan, the FLA has not received a plan to address the risks and noncompliances raised in the report. Therefore, the report is posted in its current state and will be updated once a corrective action plan has been submitted to and reviewed by the FLA. "

## What's Included in this Report

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# Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

## Glossary

**De minimis:** A de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of such facility. The FLA Charter states that in no event shall de minimis facilities constitute more than 15% of the total of all facilities of a Company, and the list of facilities designated as de minimis by a Company is subject to the approval of the FLA. Please note that collegiate-producing factories cannot count as de minimis.

**Facility performance:** how a facility rates in terms of a particular employment or management function, with 100% being the best possible score.

**Fair labor standards:** the minimum requirement for how workers should be treated in a workplace, as outlined in the [FLA Workplace Code of Conduct](#).

**Employment life cycle:** all aspects of an employee's relationship with the employer, from date of hire to termination or end of employment.

**Code violation:** failure to meet standards outlined in the FLA Workplace Code of Conduct in the workplace implementation of employment or management functions.

**Employment Functions:** The different components of the relationship between management and employees in a factory. An employment function is a process regulating an aspect of the employment relationship, such as the recruitment of workers. All employment functions together constitute the employment relationship between an employer and an employee.

1. Recruitment, Hiring & Personnel Development (e.g., performance reviews)
2. Compensation (e.g., wages, health care)
3. Hours of Work (e.g., overtime, documentation of working hours)
4. Industrial Relations (e.g., collective bargaining agreements)
5. Grievance System (e.g., worker communication with management)
6. Workplace Conduct & Discipline (e.g., discrimination, harassment)
7. Termination & Worker Retrenchment (e.g., downsizing, resignation)
8. Health & Safety (e.g., exposure to chemicals)
9. Environmental Protection (e.g., energy saving)

**Management functions:** violations or risks related to an employment function could be caused by the absence – or a problem in the operation – of any one of the management functions or in more than one.

1. Policy
2. Procedure
3. Responsibility & Accountability
4. Review Process
5. Training
6. Implementation
7. Communication & Worker Involvement
8. Support & Resources (only for the in-depth level)

**Finding:** indicators of potential gaps between desired and actual performance of the workplace on different employment functions.

### Finding type

- **Immediate action required:** discoveries or findings at the workplace that need immediate action because they not only constitute an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to

the environment, but also are clear non-compliances with the FLA Workplace Code of Conduct and local laws. Examples include a finding by the assessor that crucial fire safety elements are not in place or that there is underpayment of wages and/or worker entitlements or that there is direct discharge of waste water, etc.

- *Sustainable improvement required*: findings that require sustainable and systematic actions. The factory will be asked to tackle the underlying root causes and to do so in a long-term and systematic manner to bridge the gap between actual and desired performance. Examples include a finding by the assessor that there is lack of termination policies and procedures in the workplace, lack of grievance system, etc.
- *Notable feature*: indicates a remarkable feature or best practice at a workplace. Examples might include workers' wages and benefits that are significantly above the industry average, or community benefits such as free daycare.

**Local law or Code Requirement**: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

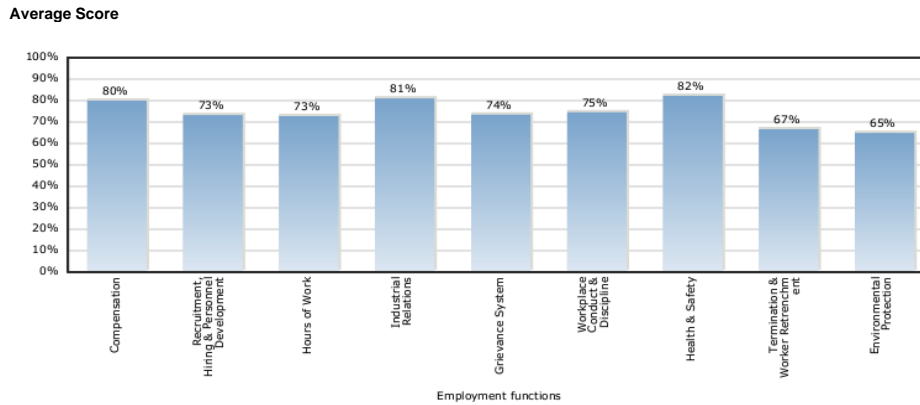
**Root causes**: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that the worker did not use the hearing protection equipment because such equipment was not provided by management. However, upon a more thorough evaluation of available information, the assessor might find that the worker was indeed supplied with hearing protection equipment and with written information about the importance of wearing hearing protection, but was not trained on how to use the equipment and that use of the equipment was not enforced in a consistent manner by management.

**Company action plan**: a detailed set of activities outlined by the sourcing company and/or direct employer to address FLA findings.

# Factory Profile

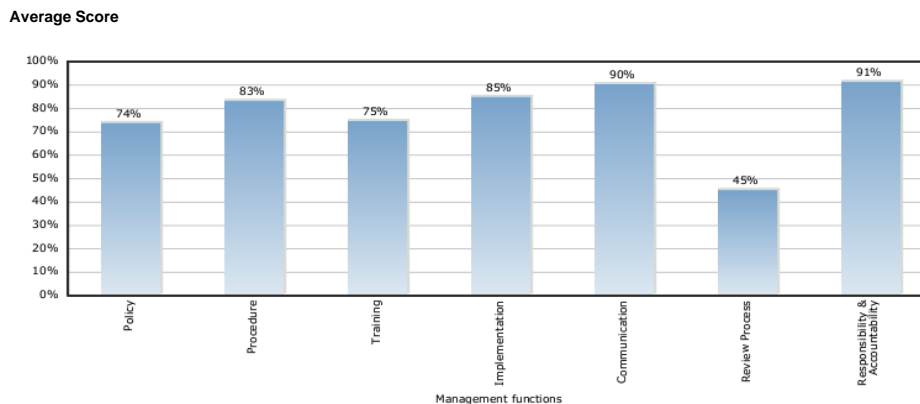
## Score by Employment Function

Scores indicate a factory's performance related to a specific employment function based on an FLA assessment. A score of 100 percent indicates flawless operation of an employment function. A score of less than 100 percent indicates need for improvement.



## Score by Management Function

Scores indicate a factory's performance related to a specific management function based on an assessment conducted for FLA by independent, accredited assessors. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



## Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

Management Functions	Recruitment, Hiring & Personnel Development	Compensation	Hours of Work	Industrial Relations	Grievance System	Workplace Conduct & Discipline	Termination & Worker Retrenchment	Health & Safety	Environmental Protection
Policy	33.4%	50%	50%	50%	75%	75%	37.5%	66.67%	75%
Procedure	65.18%	100%	100%	100%	100%	66.67%	50%	85.29%	80%
Responsibility & Accountability	100%	100%	100%	66.67%	100%	100%	75%	100%	100%
Review Process	50%	100%	50%	100%	0%	0%	0%	66.67%	33.33%
Training	73.08%	66.67%	66.67%	50%	66.67%	75%	50%	86.25%	16.67%
Implementation	84.5%	84.95%	84.78%	100%	77.78%	87.5%	100%	83.24%	64.35%
Communication	100%	100%	100%	100%	100%	83.33%	66.67%	100%	50%

## Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element	Number of Violations	Violations
Compensation	4	General Compliance Compensation Record Maintenance False Payroll Records Calculation Basis for Overtime Payments
Employment Relationship	11	General/Human Resource Management Systems Terms and Conditions/Communication Terms and Conditions/Supervisor Training General/Documentation and Inspection Administration of Hours/Time Recording System Industrial Relations Work Rules and Discipline Skills Development/Management of Performance Reviews Skills Development/Promotion, Demotion and Job Reassignment Health, Safety, and Environmental Management System/Policies and Procedures Termination and Retrenchment/General Policies and Procedures
Harassment and Abuse	1	General Compliance Harassment or Abuse
Hours of Work	2	General Compliance Hours of Work Sick Leave
Health, Safety and Environment	7	General Compliance Health, Safety, and Environment Material Safety Data Sheets/Workers Access and Awareness Machinery Safety, Maintenance and Workers Training Ergonomics Notification and Record Maintenance Permits and Certificates Chemical Management and Training

## Findings and Action Plans

### FINDING NO.1

### RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

**FINDING TYPE:** Sustainable Improvement Required

#### Finding Explanation

1. There are no policies or procedures on production workers' career path and personnel development. The factory does not have specific career paths or skill development plans for production workers, who make up more than 80% of the total workforce.
2. The factory does not have written policies and procedures on conducting performance reviews that include the steps and processes, and does not conduct regular performance reviews for employees.
3. The job application form includes a question regarding marital status, which might lead to discrimination during the recruitment process.
4. There are only written job descriptions for 80% of the positions.
5. The factory has not hired any disabled workers. The local law requires that at least 1.5% of the total workforce be comprised of disabled workers. Although the factory contributes to the Employment Security Fund in lieu of employing disabled workers, as allowed under the local law, this practice carries the risk of discrimination based on FLA Workplace Code and Benchmarks.
6. Half of the employment contracts do not include a stipulation for compensation beyond the probation period.

#### **Local Law or Code Requirement**

The Law of the People's Republic of China on Employment Contract, Article 17; FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.3, ER.28, and ER.29; Nondiscrimination Benchmark ND.4; Compensation Benchmark C.1)

#### **Recommendations for Immediate Action**

Remove the question regarding marital status from the applications forms. Ensure that recruitment decisions are based solely on the qualifications of the applicants.

## **FINDING NO.2**

### **COMPENSATION**

#### **FINDING TYPE: Immediate Action Required**

#### **Finding Explanation**

1. A review of social insurance payments from October 2013 to September 2014 and interviews showed that the factory does not provide employees with sufficient social insurance coverage. All employees were covered by work-related injury and maternity insurance, but only 22.6% of employees were covered by pension and unemployment insurance, and no employees were provided medical insurance in September 2014. Nor were the employees provided commercial accidental injury insurance.
2. The contribution base for the five types of social insurance is not in line with the legal requirement. For example, the contribution for pension insurance should be based on the employee's average total wage for the past 12 months (about CNY 2,500 per month); however, the factory only contributed to the pension insurance based on CNY 1,170 per month.
3. The factory does not pay into the legally required Housing Provident Fund for workers.
4. The factory has a policy for sick leave; however, employees are not knowledgeable about it, and sick leave was not given to any employees in the past 12 months.
5. The factory does not properly compensate for overtime work on statutory holidays. There are three 8-hour shifts for production employees, and some employees work eight hours (00:00 to 8:00) on statutory holidays, such as New Year's Day. The factory only pays the regular overtime rate for work on statutory holidays, instead of the legally required 300% of regular pay rate.

#### **Local Law or Code Requirement**

China Labor Law, Articles 18, 72, and 73; Social Insurance Law of the PRC, Article 12; Regulations On Management of Housing Provident Fund, Article 15; The Opinion of the Ministry of Labor on Several Questions concerning the Implementation of Article 59 of the China Labor Law; China Labor Law, Article 44; FLA Workplace Code (Employment Relationship Benchmark ER.22; Hours of Work Benchmark HOW.16; Compensation Benchmarks C.1 and C.7)

#### **Recommendations for Immediate Action**

1. Provide legally required sick leave for employees.
2. Ensure that employees are compensated for overtime work in accordance with local law.

## **FINDING NO.3**

### **HOURS OF WORK**

#### **FINDING TYPE: Immediate Action Required**

### **Finding Explanation**

1. Monthly overtime for 80% of workers exceeded the legal limit of 36 hours, with a maximum of 40 hours, in all months except for October 2013, January, February, April, July, and October 2014.
2. Time records are inaccurate and incomplete. According to the cinder test records collected from the boiler room, some employees (including boiler operators and cinder testers) worked on Sundays (April 13, 2014 and April 20, 2014 and June 1, 8, 15, and 22, 2014). However, time records and payroll records provided by factory management did not show employees working on those days. Some employees confirmed that they worked those Sundays conducting work for a short time, such as cinder sampling, without swiping their time card.

### **Local Law or Code Requirement**

China Labor Law, Article 41; FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23; Hours of Work Benchmark HOW.1; Compensation Benchmarks C.15 and C.16)

### **Recommendations for Immediate Action**

1. Ensure that workers do not work more than the legal limit of 36 hours of overtime per month.
2. Ensure that employees' working hours are accurately recorded and calculated.

## **FINDING NO.4**

### **TERMINATION & RETRENCHMENT**

**FINDING TYPE:** Sustainable Improvement Required

### **Finding Explanation**

1. The factory does not have Termination & Retrenchment procedures. Therefore, no communication is provided to the workforce on this topic.

### **Local Law or Code Requirement**

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.16, and ER.32)

## **FINDING NO.5**

### **WORKPLACE CONDUCT & DISCIPLINE**

**FINDING TYPE:** Sustainable Improvement Required

### **Finding Explanation**

1. There are no procedures for disciplinary measures. Therefore, no communication is provided to the workforce on this topic.
2. The disciplinary system does not include workers' right to have a third party witness present during imposition of the disciplinary action.
3. Management handles factory rule violations verbally, without keeping written records. Workers and managers stated that there were a few cases of rules violations in recent years.

### **Local Law or Code Requirement**

FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.27)

## **FINDING NO.6**

### **GRIEVANCE SYSTEM**

**FINDING TYPE:** Sustainable Improvement Required

### **Finding Explanation**

1. Management does not maintain grievance records. Based on interviews with workers and management, there were few grievances in recent years, so grievances were handled verbally or through meetings with employees.

### **Local Law or Code Requirement**

FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.25)

## **FINDING NO.7**

### **TRAINING (MACRO)**

#### **FINDING TYPE: Sustainable Improvement Required**

### **Finding Explanation**

1. The factory does not provide training to managers and supervisors on the following Employment Functions: Recruitment, Hiring & Personnel Development, Compensation, Hours of Work, Termination & Retrenchment, Industrial Relations, Workplace Conduct & Discipline, Grievance System, and Environmental Protection.

### **Local Law or Code Requirement**

FLA Workplace Code (Employment Relationship Benchmark ER.17)

## **FINDING NO.8**

### **REVIEW PROCESS (MACRO)**

#### **FINDING TYPE: Sustainable Improvement Required**

### **Finding Explanation**

1. The factory does not have a review process of policies, procedures, and their implementation for the following Employment Functions: Recruitment, Hiring & Personnel Development, Termination & Retrenchment, Workplace Conduct & Discipline, Grievance System, and Environmental Protection.

### **Local Law or Code Requirement**

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.30, and ER.31)

## **FINDING NO.9**

### **HEALTH, SAFETY & ENVIRONMENT**

#### **FINDING TYPE: Immediate Action Required**

### **Finding Explanation**

1. The factory does not have a written procedure for environmental impact assessment to identify environmental factors, and control and manage environmental factors in a systemic way.
2. The secondary chemical containers in the chemical warehouse are slightly damaged.
3. Hazardous waste storage containers do not have labels, including chemical names and hazards.
4. Hazardous waste (waste fluorescent tubes and empty paint barrels) is stored with non-hazardous waste.
5. The factory does not maintain hazardous waste disposal records for the disposal of toner cartridges and waste fluorescent tubes.
6. The factory's suppliers for recycling dispose of chemical waste containers; however, this type of waste is legally required to be disposed by an authorized handler.
7. Some hazardous waste (empty chemical containers and waste machine oil barrels) is stored in the open air instead of a proper weatherproof segregation facility.



## **Local Law or Code Requirement**

Regulation for Safety of Dangerous Chemical, Article 16; China Law of Prevention and Treatment of Environmental Pollution by Solid Wastes, Article 52; Law on Prevention and Control of Environmental Pollution by Solid Wastes (2004), Articles 57, 58, and 59; The Standard for Pollution Control on Hazardous Waste Storage GB 18597-2001, Articles 6.2.4, 6.2.5, and 6.2.6; FLA Workplace Code (Employment Relationship Benchmark ER.31; Health, Safety & Environment Benchmarks HSE.1, HSE.4, and HSE.9.1)

## **Recommendations for Immediate Action**

1. Install secondary containers in good condition for all chemicals.
2. Post proper labels on hazardous waste storage containers.
3. Store hazardous waste as per legal requirements.
4. Arrange for a qualified contactor to dispose of hazardous waste.

## **FINDING NO.10**

### **HEALTH & SAFETY**

#### **FINDING TYPE:** Immediate Action Required

#### **Finding Explanation**

1. The factory does not have the fire acceptance check or filing for production buildings No.5 and No.7. Factory records show they are in the process of applying for these documents.
2. Two fire hydrants are blocked by production equipment in the finishing workshop of production building No.2.
3. The chemical warehouse does not have a fire alarm.
4. The chemical warehouse has normal lighting fixtures instead of explosion-proof lamps.
5. Combustible materials (cartons and plastic) are stored in a stairwell in production building No.4.
6. Chemical containers in the production workshop do not have warning signs and 40% of chemical containers are not clearly labeled.
7. Half of the chemicals used in the factory do not have material safety data sheets (MSDS).
8. The factory does not have an eyewash facility in the auxiliary building mixing room. In addition, chemical barrels are blocking the eyewash facility and the shower in the mixing room of production building No.1.
9. The printing workers wear medical masks instead of active carbon masks, and three workers in the mixing room do not wear gloves, goggles, or aprons.

## **Local Law or Code Requirement**

The China Fire Prevention Law, Article 13 and 28; Code for Design of Automatic Fire Alarm System (GB50116-98), Articles 5.5.1 and 5.5.2; Regulation for Safety of Dangerous Chemical, Article 16; The Fire Safety of Building Design Regulation GB50016-2006, Article 7.4.1; The Regulation of Chemical Safety Usage in Workplace, Articles 12 and 19; China Law of Prevention and Control of Occupational Diseases, Article 23; The Law of the China on Work Safety, Article 37; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.2, HSE.6.1, HSE.7, HSE.8, HSE.9.1, and HSE.10)

## **Recommendations for Immediate Action**

1. Provide and monitor the use of personal protective equipment (PPE) for printing and mixing workers.
2. Ensure that fire hydrants are free from obstruction at all times.
3. Install a fire alarm in the chemicals warehouse.
4. Install explosion-proof lights in chemical warehouse.
5. Remove combustible materials from stairwells.
6. Post warning signs and proper labels on chemical containers.
7. Post or provide MSDS onsite.
8. Install eyewash facilities in the auxiliary building mixing room, and strengthen the daily maintenance of eyewash facilities.
9. Provide proper PPE and ensure that employees use them properly.

## **FINDING NO.11**

### **HEALTH & SAFETY**

## **FINDING TYPE: Sustainable Improvement Required**

### **Finding Explanation**

1. Sewing machines do not have needle guards or belt covers.
2. Protective cages are not installed on three ladders (3.5 meters high) outside of the production buildings.
3. A handrail is not installed on a ladder (1.3 meters high) located between buildings No.1 and No.2.
4. The factory provides occupational health examinations for 34 workers who work in loud noise environments and 20 workers who use chemicals. However, examinations for those workers are not given before and after employment, as legally required.
5. The factory does not have annual inspection reports for ten electric hoists and one compressing vessel in the weaving workshop. An annual inspection report for another electric hoist expired on June 4th, 2014.
6. The factory has procedures for dangerous energy management, but has not identified the equipment and machines that require lock-out/tag-out.
7. The factory does not have written procedures for confined space management. The factory does not have a list of confined spaces that require work permits and no training is provided to employees on confined spaces. There are ten elevator shafts and four fire pools in the factory.
8. The factory does not mark traffic lanes and walk paths on the factory premises.
9. The factory maintains sick leave records, but does not track and analyze all illnesses.
10. The factory does not manage ergonomics risks for workers, e.g., taking proactive steps to reduce repetitive-motion stress/injuries, providing adjustable workstations and chairs with backrests for workers who work in a sitting position.

### **Local Law or Code Requirement**

Code of Design of Manufacturing Equipment Safety and Hygiene, Article 6.1.6; Safety of machinery - Permanent means of access to machines and industrial plants - Part 3: Stairways, stepladders and guard – rails GB17888.3 -2008, Articles 7.1.2, 7.1.4, 7.1.5, and 7.2.1; The China Law of Prevention and Control of Occupational Diseases, Article 32; The Special Appliance Quality Safety Monitoring Regulation, Article 28; FLA Workplace Code (Employment Relationship Benchmark ER.31; Health, Safety & Environment Benchmarks HSE.1, HSE.3, HSE.14.1, and HSE.17)

### **Recommendations for Immediate Action**

1. Install needle guards and pulley guards on the sewing machines.
2. Install protective cages on the three ladders outside of production buildings.
3. Install a handrail on the ladder between buildings No.1 and No.2.
4. Provide the correct occupational health examinations for relevant employees.

## **FINDING NO.12**

### **INDUSTRIAL RELATIONS**

## **FINDING TYPE: Sustainable Improvement Required**

### **Finding Explanation**

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the International Labor Organization (ILO), many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.

### **Local Law or Code Requirement**

FLA Workplace Code (Freedom of Association and Collective Bargaining Benchmark FOA.2)

## **FINDING NO.13**

## **WORKER INTEGRATION (MACRO)**

**FINDING TYPE:** Sustainable Improvement Required

### **Finding Explanation**

1. The Worker Integration component is missing throughout all Employment Functions, indicating that management has not established procedures to receive workers' input/feedback on the creation, implementation, and updating of its policies and procedures. Workers are neither systematically integrated nor consulted in decision-making processes.

### **Local Law or Code Requirement**

FLA Workplace Code (Employment Relationship Benchmarks ER.1.3 and ER.25.2)