



2011

## FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** American Eagle Outfitters, Inc.

**COUNTRY:** Bangladesh

**FACTORY CODE:** 980005291J

**MONITOR:** Nurul Azam

**AUDIT DATE:** November 14, 2011

**PRODUCTS:** Woven Goods

**PROCESSES:** Cutting, Sewing, Finishing

**NUMBER OF WORKERS:** 2791



**CONTENTS:**

Wages, Benefits and Overtime Compensation: Minimum Wage.....3  
Code Awareness: .....5  
Health and Safety: General Compliance Health and Safety .....6  
Health and Safety: Evacuation Requirements and Procedure .....7  
Health and Safety: Safety Equipment and First Aid Training.....8  
Health and Safety: Personal Protective Equipment .....10  
Hours of Work: General Compliance Hours of Work .....12  
Hours of Work: Rest Day .....13  
Hours of Work: Time Recording System.....14

## **Wages, Benefits and Overtime Compensation: Minimum Wage**

WBOT.2 Employers shall pay workers at least the legal minimum wage or the prevailing industry wage, whichever is higher. (S)

### **Noncompliance**

**Explanation:** Around 40% of workers have been downgraded (from Senior Operator to Operator or Junior Operator, from Senior Quality to Quality); workers' personnel files, appointment letters, and ID cards have been changed and re-issued with the changes on the new minimum wages in November 2010.

**Plan Of Action:** 2012: Plan an industry-wide as well as factory specific investigation to find out the real practice and level of reasonableness behind the issue. More importantly, regardless of the results from past practices, focus on current wage practices especially concerning skill levels, grading, bonuses, etc. in an attempt to emphasize a fair wage approach in this and similar suppliers in the region.

2013: Continue investigating current wage system and grading practices to arrive at fair wage solutions from skill versus earning perspective.

**Deadline Date:** 06/30/2013

**Supplier CAP:** Based on the response from factory management, Operators' Grade as per Bangladesh Gazette notification are as below:

- a. Grade 3: Senior Operator
- b. Grade 4: Operator
- c. Grade 5: Junior Operator
- d. Grade 6: General Operator

It was an unintentional mistake in the part of the IT Department to place all the operators as Senior Operator (grade:3). Placing all the operators as Senior operator is never done in any factory. Moreover it is not a realistic scenario. Operators were supposed to be placed in all the four grades as per their efficiency.

After it was identified, the mistake was corrected and operators were placed as per their appropriate grade in Nov 2010. However all the operators received higher amount of salary after the minimum wages declaration in Nov 2010.

**Supplier** 12/25/2012  
**CAP Date:**

**Action Taken:** 2012: AEO has made a retrogressive investigation in 2012 to find out the extent of this issue and found out that prior to MW raise at the end of 2010, most of the Bangladeshi factories utilized a simple system of compensation whereby everybody was automatically graded as per the bonuses/increments added to basic salary in time, ultimately bringing most workers to highest grade regardless of skill level. When the wage raise came into effect though, the industry readjusted the wage applications and started from scratch, hence downgrading of basic job laborers. While it is quite difficult to further investigate details of each worker from data 2-3 years back, it can be concluded that this trend was very general and the solution was not challenged.

February 2013: Further inspection and adjustment of the current wage system is necessary to ensure similar mistakes are not encountered due to IT applications and/or wage-based grading. Hence AEO is planning to mobilize its newly recruited local CR staff to focus on the wage area, including grading, within 2013 and among all suppliers in Bangladesh.

**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:** The company has not developed a confidential noncompliance reporting mechanism for the workers.

**Plan Of Action:** AEO has piloted system-based external grievance systems in China in 2011, but also continued to launch local measures throughout 2012, i.e. establishment of secure communication channels with the workforce during regular factory assessments by internal staff and/or local 2nd party monitoring partners. The same is being planned and implemented in Bangladesh, including this supplier.

**Deadline Date:** 02/20/2013

**Supplier CAP:**

**Supplier CAP Date:** 11/30/2010

**Action Taken:** In 2012 AEO has received a significant number of grievances directly from workers as a result of establishment of secure channels during factory visits, i.e. communication of phone numbers of local staff or external resources.

The same has been started in 2013 in Bangladesh owing to recruitment of a local CR auditor with language ability as well as frequent access to suppliers, including this one. The first concerns have already been received and being investigated (e.g. a termination without reasonable notice as well as excessive overtime, both of which are being addressed), and similar records will be maintained if received from this supplier in coming weeks/months.

**Plan Complete:** Yes

**Plan Complete Date:** 02/21/2013

---

### Health and Safety: General Compliance Health and Safety

H&S.1 Employers shall comply with all local laws, regulations and procedures concerning health and safety. (S)

#### Noncompliance

**Explanation:** The factory does not have building construction approval from the local authority. The factory has obtained layout approval from the factory inspector.

Legal Reference: Circular from "Ministry of Housing and Public Works," Circular No: 92/2007/256, Circular Date: August 19, 2010

**Plan Of Action:** Liaise with factory management to understand legal process for obtaining department of construction approval and monitor the application/reward for the same.

**Deadline Date:** 03/31/2013

**Supplier CAP:** A waiver from Department of Construction is to be obtained and sent to AEO owing to legal process for buildings constructed prior to certain date.

**Supplier CAP Date:** 12/25/2012

**Action Taken:**

**Plan**            **No**  
**Complete:**

**Plan**  
**Complete**  
**Date:**

---

**Health and Safety: Evacuation Requirements and Procedure**

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

**Noncompliance**

**Explanation:** In the cutting section, some aisles were partly blocked with fabric, goods or workstations.

**Plan Of Action:** Fire safety is a high-risk issue in Bangladesh; hence AEO will not only rely on audits/inspections and isolated CAPs, but rather system based solutions with sufficient expertise and awareness in place. Therefore, this supplier has been started in a pilot-project in collaboration with AEO's local buying agent; results will be checked regularly and readjustments made accordingly.

**Deadline**    02/20/2013  
**Date:**

**Supplier**    A major organization, technical enhancement and awareness project has been launched  
**CAP:**            and still continuing; see attached summary of slides for a thorough outline and examples.

**Supplier**    12/25/2012  
**CAP Date:**

**Action Taken:** 2012: Management has taken major steps to address fire safety measures at all levels (see attachment), especially per below:

1. An inspection report and ongoing enhancements on electrical safety.
2. Risk assessment and corresponding action plan.
3. Safety teams in 3 levels with 7-16 participants in each and 23-40 check points on daily/weekly/monthly bases.
4. A nearby natural water reservoir utilization by pump engine. Hence the blocking of aisles/exits is a minimized risk from a system perspective.

**Plan Complete:** Yes

**Plan Complete Date:** 02/21/2013

---

### Health and Safety: Safety Equipment and First Aid Training

H&S.10 All safety and medical equipment (such as fire fighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

#### Noncompliance

**Explanation:** 1. Some of the listed fire fighters were not aware of the use of different types of fire extinguishers and fire equipment and their proper use on different types of fire. However, the factory does conduct fire training and training records were available.

2. Some smoke detectors on the 2nd floor were not functional: 4 out of 7 smoke detectors in the finished goods area and both smoke detectors in the chemical storage unit of the washing area



<b>Plan Of Action:</b>	Fire safety is high-risk issue in Bangladesh; hence AEO will not only rely on audits/inspections and isolated CAPs, but rather system based solutions with sufficient expertise and awareness in place. Therefore, this supplier has started a pilot project in collaboration with AEO's local buying agent; results will be checked regularly and readjustments made accordingly.
<b>Deadline Date:</b>	03/31/2013
<b>Supplier CAP:</b>	A major organization, technical enhancement and awareness project has been launched and still continuing; see attached summary of slides in I for a thorough outline and examples.
<b>Supplier CAP Date:</b>	12/25/2012
<b>Action Taken:</b>	<p>2012: Management has taken major steps to address fire safety measures at all levels (see attachment for I), especially per below:</p> <ol style="list-style-type: none"> <li>1. An inspection report and ongoing enhancements on electrical safety.</li> <li>2. Risk assessment and corresponding action plan;</li> <li>3. Safety teams in 3 levels with 7-16 participants in each and 23-40 check points on daily/weekly/monthly bases;</li> <li>4. A nearby natural water reservoir utilization by pump engine.</li> </ol> <p>February 2013: Following are still bearing high risks for complete fire safety awareness in the facility:</p> <ol style="list-style-type: none"> <li>1. Smoke detectors in the basement storage area do not seem to be regularly tested and checked as a few were observed not to be functioning.</li> <li>2. Open gas furnaces with visible flare over laundry driers should be risk-assessed against probable fire hazard.</li> <li>3. Female workers should be encouraged to participate in safety teams as currently all such teams are made up of male workers.</li> </ol>

**Plan** No  
**Complete:**

**Plan**  
**Complete**  
**Date:**

---

### Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

#### Noncompliance

**Explanation:** Workers in the spot removing room were not using any personal protective equipment (PPE) (gloves, masks, and goggles) while working.

**Plan Of Action:** Enhance following areas of possible root problems:

1. Better ventilation in spot removal sections.
2. Regular medical inspection of workers in spot removing area.
3. Updated awareness training on PPE.
4. Local control of proper use of the room and PPE.
5. Continuous improvement of PPE selection process.

**Deadline** 03/31/2013  
**Date:**



**Supplier  
CAP:**

**Supplier  
CAP Date:**

**Action  
Taken:**

**Plan           No  
Complete:**

**Plan  
Complete  
Date:**

---

## Hours of Work: General Compliance Hours of Work

HOW.1 Employers shall comply with all local laws, regulations and procedures concerning hours of work, public holidays and leave. (S)

### Noncompliance

**Explanation:** The weekly working hour limit of 60 hours a week is exceeded in the peak season. From January to June 2011, 80% of workers worked an average of 72 hours a week, to a maximum of 88 hours a week (including a weekly day off work). While from August to October 2011, the factory mostly worked within the legal limit of 60 hours a week.

**Plan Of Action:** Although management is transparent with payroll and time records and there has been some effort to reduce overtime hours, there is no system to track, monitor and analyze hours of work so as to correlate with the production data and reveal root cause issues towards sustainable solutions. AEO requires use of a tracking template and can provide this to factory as a first step of action plan in this regard.

**Deadline Date:** 06/30/2013

**Supplier CAP:** Production planning is done by the corporate production department in coordination with assistance from the factory production management. The corporate office and the factory is creating Industrial Engineering (IE) departments. Production planning is done on the basis of their bulletin. Even during production also actual production and planning is reviewed.

**Supplier CAP Date:** 01/21/2013

**Action Taken:** February 2013: Overtime is substantially reduced by proper production management and shift system in some departments; except finishing, where OT is still high as otherwise it is kept within 60-65 hour workweek range.

**Plan Complete:** No

**Plan Complete Date:**

### Hours of Work: Rest Day

HOW.2 Workers shall be entitled to at least one day off in every seven-day period. If workers must work on a rest day, an alternative day off must be provided within that same seven-day period or immediately following the seven-day period. (P)

### Noncompliance

**Explanation:** Workers may not have 1 weekly day off in the peak season. The factory worked an average of 2, to a maximum of 4, weekly days off in January and March 2011, resulting in continuous work for 31 days without a break. Weekly day off work is mostly paid as overtime, except for a few weekly days off before Eid holidays that are substituted by an extended Eid holiday.

**Plan Of Action:** Although management is transparent with payroll and time records and there has been some effort to reduce overtime hours, there is no system to track, monitor and analyze hours of work so as to correlate with the production data and reveal root cause issues towards sustainable solutions. AEO requires use of a tracking template and can provide this to factory as a first step of action plan in this regard.

**Deadline Date:** 06/30/2013

**Supplier CAP:** Production planning is done by the corporate production department in coordination with assistance from the factory production management. The corporate office and the factory is creating Industrial Engineering (IE) departments. Production planning is done on the basis of their bulletin. Even during production also actual production and planning is reviewed.

**Supplier CAP Date:** 01/21/2013

**Action Taken:** February 2013: Overtime is substantially reduced by proper production management and shift system in some departments; except finishing, where OT is still high as otherwise it is kept within 60-65 hour workweek range.

Workers are normally given one day off on Fridays, the local weekly day off in Bangladesh, except in rare peak seasons, once or twice a year, when there can be OT even on a rest day. This should also be addressed per the intended action plan based on tracking and analyzing root causes in the long term.

**Plan Complete:** No

**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:** The factory maintains 3 sets of working hour and payment records. The first set of records indicates legal working hours with 2 hours of overtime a day. The second set of records indicates extra additional overtime of up to 2 more hours a day and 1 weekly day off work. The third set of records indicates complete and accurate working hours and payment records where the wages and payment rate is accurate.

The factory maintains such different sets of records as they are working for different customers/buyers. However, the factory was transparent in providing time and wage records.

**Plan Of Action:** We believe that the most effective way to help our suppliers address social and security concerns is to have unobstructed visibility to their operations. Therefore, we are making a concerted effort to facilitate full transparency in our auditing process. Although we will continue to track and follow up on all findings, we have begun to move away from strictly objective audit scoring. In many cases, full transparency will allow a supplier to continue (or begin) receiving orders, as long as they also demonstrate a commitment to continual improvement.

**Deadline Date:** 06/30/2014

**Supplier CAP:**

**Supplier CAP Date:**

**Action Taken:** From transparency perspective this issue has already been addressed whereby the factory is co-operative in revealing full payroll and time records for AEO's internal and external monitors; however also keeps other set of records for buyers from different audit approach mindsets. The ultimate solution to this issue obviously lies in reasonable hours with no need to keep several sets of records; which is part of the CAP in overtime areas above.

**Plan Complete:** No

**Plan Complete Date:**

---