



COMPANY: **ABC GRUPPEN AB**  
COUNTRY: **China**  
ASSESSMENT DATE: **12/05/12**  
MONITOR: **FLA Assessor Team (China)**  
PRODUCTS: **Apparel**  
PROCESSES: **Cut, Sew, Other**  
NUMBER OF WORKERS: **320**  
ASSESSMENT NUMBER: **AA000000147**

## FLA Comments

This report was submitted to FLA and the FLA-affiliated company by the assessor. Despite deadline reminders and extensions for submission of a corrective action plan, 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 FLA.

## What's Included in this Report

- Understanding this Assessment Report
- Glossary
- Score by Employment Function
- Score By Management Function
- Score Summary
- Summary of Code Violations Table
- Findings and Action Plans

# 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 the 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.

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

**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.

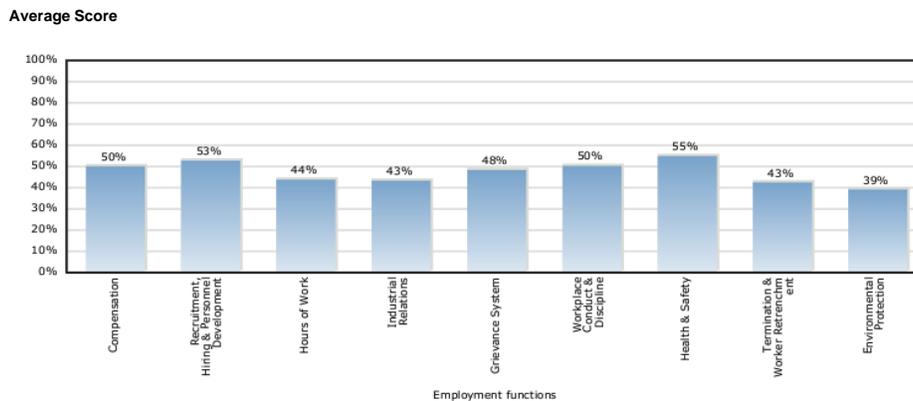
**Local law or Code Requirement**: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

**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.

**Uncorroborated Risk of Noncompliance**: indicates a serious issue that has surfaced during the assessment, but one which the assessors were not able to corroborate through additional sources of information (e.g., allegation of retaliation against a worker by the factory management for participating in the assessment).

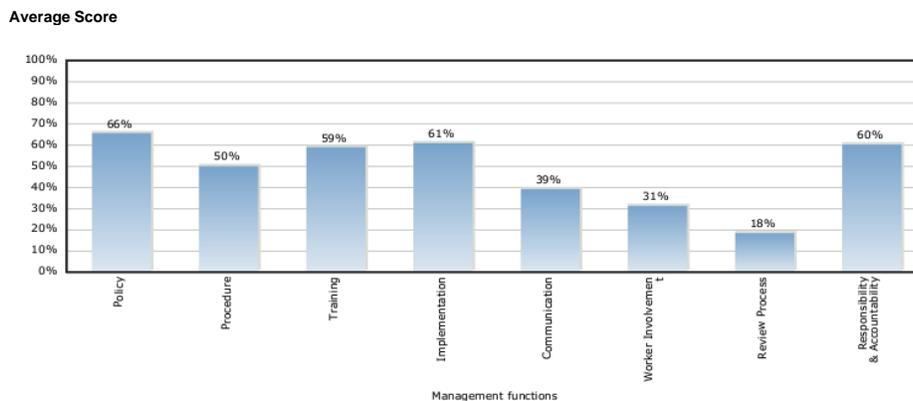
## Score by Employment Function

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 FLA assessment. 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                          | 59.57%                                      | 50%          | 50%           | 8.25%                | 85.71%           | 80%                            | 61.11%                            | 83.33%          | 100%                     |
| Procedure                       | 69.28%                                      | 37.6%        | 31.67%        | 0%                   | 90%              | 66.67%                         | 27.27%                            | 60.23%          | 20%                      |
| Responsibility & Accountability | 59.66%                                      | 63.4%        | 59.57%        | 37.5%                | 37.5%            | 37.5%                          | 63.4%                             | 63.83%          | 56.6%                    |
| Review Process                  | 30%   | 30%          | 22.73%        | 25%                  | 27.27%           | 30%                            | 25%                               | 30%             | 25%                      |
| Training                        | 59.96%                                      | 58.81%       | 50.59%        | 40.63%               | 56.54%           | 44.44%                         | 50%                               | 69.77%          | 45.54%                   |
| Implementation                  | 75.1%                                       | 67.98%       | 55.68%        | 65.22%               | 69.44%           | 87.04%                         | 64.67%                            | 60.93%          | 17.71%                   |
| Communication                   | 0%  | 45%          | 29.17%        | 0%                   | 50%              | 68.75%                         | 22.22%                            | 68.75%          | 20%                      |
| Worker Involvement              | 0%  | N/A          | N/A           | 100%                 | 0%               | N/A                            | N/A                               | 37.5%           | 100%                     |

## 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                                 |
|--|
| Compensation                                     |
| Child Labor                                      |
| Employment Relationship                          |
| Freedom of Association and Collective Bargaining |
| Hours of Work                                    |
| Health, Safety and Environment                   |
| Non-Discrimination                               |

## Findings and Action Plans

### FINDING NO.1

### ENVIRONMENTAL PROTECTION

### FINDING TYPE: Immediate Action Required

#### Finding Explanation

1. Solid and hazardous wastes were mixed in the collecting area. There was only one waste container on the production floor and its label did not specify what kind of waste it contained.

#### Local Law or Code Requirement

Prevention and Control Law of Environmental Pollution, Solid Waste, Articles 52 & 58; FLA Workplace Code (Health, Safety and Environment Benchmark HSE.1)

#### Root Causes

1. Management does not fully understand the importance of Environmental Protection.
2. The Health, Safety and Environment (HSE) Department and the HSE Committee are accustomed to dealing with conventional audits, and are not equipped to improve the factory's performance in a lasting and sustainable way.

#### Recommendations for Immediate Action

1. The factory is to provide different, clearly labeled containers that are to be kept separately. The labels should clearly indicate the contents and identify if they are waste fabric (solid waste) or waste fluorescent lamps (hazardous waste).

## FINDING NO.2

### RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

1. The factory has not created or implemented a policy and procedure related to personnel development that includes performance reviews and defines how these reviews are linked to promotions.

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.1, ER.28.1, ER.29.1, and ER.30.1)

##### Root Causes

1. Management does not see the benefits of having a systematic personnel development plan for production workers.
2. For most workers on the production floor, opportunities for promotion and personnel development are very limited.

## FINDING NO.3

### HEALTH & SAFETY

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

1. There was no dedicated chemical storage area. The factory did not maintain Material Data Safety Sheets (MSDS) for one cleaning agent.
2. The factory did not provide the pre-job occupational health examination for the workers who handle chemicals. Only on-job occupational health examinations are provided. Workers working with hazardous chemicals should be provided with pre-job, on-job and pre-departure occupational health examinations as per the legal requirement.
3. Engine oil and diesel were stored without secondary containers. In addition, these chemicals were stored in or close to the power generation room, which increases fire risk.
4. There is no firefighting equipment in the waste storage area where high volume of solid flammable waste is stored.

##### Local Law or Code Requirement

Law of Prevention and Control of Occupational Disease, Articles 27 and 36; Code of Design on Building Fire Protection and Prevention, Article 4.1; Fire Protection Law, PRC, Article 16; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE. 5, HSE.9, and HSE.10)

##### Root Causes

1. The Health, Safety and Environment (HSE) Department and the HSE Committee are accustomed to dealing with conventional audits, and are not equipped to improve the factory's performance in a lasting and sustainable way.
2. HSE staff has insufficient knowledge on HSE affairs.
3. There is no effective internal mechanism to monitor the implementation of Health and Safety (H&S) procedures.

##### Recommendations for Immediate Action

1. Set up a dedicated and separate storage area for engine oil and diesel;
2. Keep the MSDS for the cleaning agent on file and store all chemicals in a dedicated storage area. Follow all applicable requirements for safe storage;
3. Provide pre-job occupational health examinations for new workers who will be working with hazardous materials.
4. Install adequate firefighting equipment in the waste storage area.

## FINDING NO.4

## COMPENSATION

### FINDING TYPE: Sustainable Improvement Required

#### Finding Explanation

1. Around 56% of workers are not covered by pension, unemployment or medical insurance, as required by law.
2. There was no written procedure on fringe benefits, such as marital leave, annual leave, etc.
3. The factory has not made reasonable efforts to ensure that workers understand all legally required benefits, especially fringe benefits that they are entitled to, such as leave or social security. For instance, orientation and ongoing training did not cover social insurance or leave. All workers interviewed were unaware of these legally required benefits.

#### Local Law or Code Requirement

Social Insurance Law of PRC, Article 58; FLA Workplace Code (Employment Relationship Benchmarks ER.1.1 and ER.15.1; Compensation Benchmarks C.1 and C.17)

#### Root Causes

1. Both the employer and the employee consider the social insurance fee an extra cost.
2. Local governments have not been monitoring and enforcing compliance strictly.
3. The Chinese social insurance system is still under development. As a result, the process of transferring insurance across the country remains complicated. Most employees are migrant workers and are not provided with adequate support and assurance from the local government or their employer with respect to the transfer of their pension funds back to their hometowns.
4. The Human Resources (HR) department has only one employee. This person has many responsibilities and lacks the capacity and resources to implement sufficient communication and training activities around benefits.

## FINDING NO.5

## HEALTH AND SAFETY

### FINDING TYPE: Immediate Action Required

#### Finding Explanation

1. One first-aid kit was empty.
2. The workers' food was not served in a sanitary manner. For instance, the chef did not wear a mask or hairnet. The meat and vegetables in the preparation area were not kept separately.
3. The factory did not provide personal protective equipment (PPE) like masks and gloves for the workers working in the waste storage area. The factory did not provide helmets or safety belts for the electrician.
4. Seating arrangements were not designed to minimize bodily strain. The chairs provided to most workers do not have backrests to support the lower back.

#### Local Law or Code Requirement

Law of the PRC on Prevention and Control of Occupational Diseases, Article 23; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.3, HSE.4, HSE.7, and HSE.17.1)

#### Root Causes

1. There was no internal mechanism to monitor H&S implementation.
2. In China, vegetables are traditionally cooked or boiled, so canteen staff did not see the importance of separating raw vegetables and meat during preparation.
3. Management lacks of awareness on the benefits of ergonomic improvements, such as increasing productivity and attendance levels, and reducing the risk of worker accidents and Musculoskeletal Disorders (MSDs).

#### Recommendations for Immediate Action

1. Ensure that all first-aid kits are stocked, at a minimum, with basic medical supplies.
2. The meat and vegetable preparation areas should be separate. Food should be prepared in a safe and sanitary manner.
3. Provide suitable and adequate PPE for workers. Provide PPE for electricians and workers working in the waste storage area.

## FINDING NO.6

### TERMINATION AND WORKER RETRENCHMENT

**FINDING TYPE:** Immediate Action Required

#### Finding Explanation

1. There was no policy and procedure for retrenchment in the factory.

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.19.1, ER.19.2, and ER.32.1)

#### Root Causes

1. There have never been any cases of retrenchment in the factory, so the factory did not see the necessity of a retrenchment system.
2. The factory lacked expertise in creating policy and procedure covering all forms of termination and retrenchment.
3. The FLA-affiliated brand had not communicated the FLA Code and Benchmarks to the factory management.

## FINDING NO.7

### WORKPLACE CONDUCT & DISCIPLINE

**FINDING TYPE:** Immediate Action Required

#### Finding Explanation

1. Based on management interviews and document review, the factory posts the names of workers who are subject to disciplinary actions. Assessors observed a written public notice containing workers' names and the disciplinary actions taken against them.
2. The factory did not allow workers to participate or respond to the disciplinary process against them. The current disciplinary system does not include an appeals process.

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.27.3.2 and ER.27.4; Harassment or Abuse Benchmark H/A.6)

#### Root Causes

1. Disciplinary penalties are completely at the discretion of management without any oversight mechanism.
2. The lack of worker participation in the disciplinary process renders the disciplinary actions susceptible to abuse.
3. Name-and-shame is a common practice across factories in China.

#### Recommendations for Immediate Action

1. The factory is to stop the practice of posting names of workers subjected to disciplinary actions.

## FINDING NO.8

### REVIEW PROCESS

**FINDING TYPE:** Sustainable Improvement Required

#### Finding Explanation

1. The factory does not conduct a periodic review of all its existing policies and procedures on all Employment Functions (from hiring to termination). The following were observed:
  - a. The text of Environmental Protection procedure was copied verbatim from the Internet and included another

- factory's name.
- b. The notice period in the factory's termination policy was not in line with the local legal requirement. The factory requires departing workers to provide two-month's notice for some positions, while the law only requires workers to give one month's notice.

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

1. FLA Workplace Code (Employment Relationship Benchmarks ER.1.3 and ER.30.2)

### **Root Causes**

1. Factory management did not see the need to periodically update its policies and procedures.
2. HR staff lack expertise and skills in management system review process.
3. There is no staff designated with the responsibility to review and update policies and procedures.

## **FINDING NO.9**

### **RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT**

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

#### **Finding Explanation**

1. Factory use recruitment agencies that charge workers approximately a recruitment fee of 30 RMB.

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

FLA Workplace Code (Employment Relationship Benchmark ER.5.3)

#### **Root Causes**

1. Management considers the issue of recruitment fees to be beyond its scope. Therefore, no action has been taken to stop the practice.
2. The factory is not aware of the FLA Code and Benchmarks related to recruitment.

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

1. Factory management is to formally notify all recruitment agencies that workers are not to be charged recruitment fees.
2. Factory management is to conduct worker interviews immediately upon hire to identify if any workers have paid recruitment fees and, if so, reimburse the workers accordingly.

## **FINDING NO.10**

### **RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT**

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

#### **Finding Explanation**

1. The factory does not indicate the exact salary in the employment contracts of nearly half of the workers, as required by Labor Contract Law. It is merely noted that the salary is "not lower than the minimum wage."

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

Law of Employment Contracts of the PRC, Article 17; Labor Law of PRC, Article 19; FLA Workplace Code (Compensation Benchmark C.1)

#### **Root Causes**

1. Since the local labor bureau frequently updates the minimum wage, management is trying to avoid updating employment contracts each time by using standard language, instead of specifying the actual amount;
2. The Human Resources (HR) department has only one employee. As a result, factory lacks the HR resources to update the

contracts in line with the changes to the legal minimum wage.

### **Recommendations for Immediate Action**

1. Review employment contracts and clearly state the compensation package, including basic wage, overtime wages and other items required by law.

## **FINDING NO.11**

### **HOURS OF WORK**

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

#### **Finding Explanation**

1. The factory provided assessors with time records and payroll records, which were not authentic:
  - a. Time records did not match the working days shown in the production records;
  - b. The randomly selected time records for October 2012 had two different sets of time-in / time-out data;
  - c. According to worker interviews, workers did not swipe their time cards for breaks or overtime shifts. Time records showed attendance times, which were different from workers' descriptions;
  - d. Payroll records did not mention income taxes or electricity fees for the workers' dormitory. Also, these records are different from worker's descriptions of their pay slips;
  - e. Based on the review of payroll records for August 2012, overtime hours were counted as regular working hours. Also, the number of working days on the payroll records was not consistent with production records;
  - f. The social insurance information included in payroll records did not correspond with the official social insurance receipt provided by the factory.
2. For the above reasons, it was not possible for the assessors to verify that the workers were fully compensated for all hours worked.

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

Labor Law of PRC, Article 44; FLA Workplace Code (Employment Relationship Benchmark ER.23.4 and ER.23.5; Compensation Benchmarks C.7 and C.16)

#### **Root Causes**

1. Management does not see the importance and benefits of transparency. Management's primary objective is to pass external audits by brands and local authorities even if it means resorting to fake records.
2. Double bookkeeping helps the factory save on labor costs (e.g., social insurance contributions).

### **Recommendations for Immediate Action**

1. The factory is to maintain a single and accurate set of time records and payroll records.

## **FINDING NO.12**

### **INDUSTRIAL RELATIONS**

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

#### **Finding Explanation**

1. There is no policy and procedure on Industrial Relations in the factory.
2. Management held all committee membership posts in the trade union. Workers did not freely nominate and elect representatives to these posts.
3. Based on worker interviews, workers were unaware of the existence of trade union in the factory.
4. According to the factory rules, workers who participate in or organize strikes are subject to dismissal.

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

### **Root Causes**

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 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 does stipulate 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.
2. The factory did not see the benefits of establishing policy and procedure on Industrial Relations.
3. The personnel who created the factory's rules lack awareness of the law; the law does not forbid strikes.
4. The current trade union is managed in a top-down manner with limited communication with or input from workers.

### **Recommendations for Immediate Action**

1. The factory is to remove the article with the anti-strike clause from the workplace conduct/discipline policy.

## **FINDING NO.13**

### **TRAINING**

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

#### **Finding Explanation**

1. Based on an in-depth review of the training practices in the factory, it was noted that in respect of nearly all employment functions from hiring to termination, training activities were not being adequately carried out for all workforce including workers, HR staff, supervisors and management.

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

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.15.2, and ER.17.1)

#### **Root Causes**

1. Management does not fully recognize the importance and benefits of training.
2. There is no mechanism in the factory to harmonize production and training needs.

## **FINDING NO.14**

### **COMMUNICATION AND WORKER INVOLVEMENT**

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

#### **Finding Explanation**

1. The communication to workers on Employment Functions was sporadic and insufficient, and did not ensure that workers know and understand the factory's procedures.

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

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.16, and ER.27.3)

#### **Root Causes**

1. Top-down communication without workers' feedback is considered by the factory to be a more effective way of management.
2. Management does not see the need for and the benefits of an ongoing and regular communication with the workers other than some sporadic training activities.

## **FINDING NO.15**

### **WAGES AND BENEFITS**

#### **FINDING TYPE:** Uncorroborated Risk of Non Compliance

##### **Finding Explanation**

1. Based on worker interviews, their salary is not enough to cover all of their basic needs and provide a discretionary income.

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

FLA Workplace Code (Compensation Benchmark C.1.3)

##### **Root Causes**

1. The Chinese apparel industry currently does not provide wages that allow for the fulfillment of basic needs, plus a discretionary income.
2. There is no wage structure in the factory that would enable workers to progressively earn a wage level that meets basic needs.