COMPANY: adidas Group
COUNTRY: Mexico
ASSESSMENT DATE: 09/20/12
MONITOR: FLA Assessor Team (Americas)
PRODUCTS: Apparel
PROCESSES: Sew, Other, Packing, Assembly
NUMBER OF WORKERS: 168
ASSESSMENT NUMBER: AA0000000002

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Improving Workers’ Lives Worldwide
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.
Findings and Action Plans

**FINDING NO.1**

**RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT**

**FINDING TYPE:** Sustainable Improvement Required

**Finding Explanation**
According to the recruitment and hiring procedures, management is enabled to sign temporary contracts ("Contrato por Obra Determinada") without considering the applicable labor law limits and/or restrictions.

**Local Law or Code Requirement**
Mexican Federal Labor Law, Articles 35, 36, and 37; FLA Workplace Code (Employment Relationship benchmarks ER.7.2 and ER.9)

**Root Causes**

i) Historically, management used to sign temporary contracts with workers and the practice changed in 2010, but the procedures have not been updated;

ii) Absence of someone responsible to review and/or update the internal factory policies and procedures.

**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.
1. Plant 3 management should review current Hiring, Recruitment, & Personnel Development procedure and ensure that all legal aspects for temporary employment contracts are considered. 2. Train all staff members responsible for the hiring procedure once it is revised and updated. Maintain proof that trainings are provided, such as assistance list of trainings and photos. The hiring procedure should consider additional labor contract schemes included in the reform of Mexico Labor Code that has been in effect since the end of November 2012. 3. Implement a policy and procedure review process in order to ensure all HR policies are updated accordingly with legal requirements.

Action plan status: Planned
Planned completion date: 01/30/14

FINDING NO.2

RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation
Factory has neither created nor implemented policy and procedure related to personnel development, which includes the requirement of periodic 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

i) In the case of most workers on the production floor, promotion and personnel development opportunities are very limited, so workers and managers do not see the need to have written policies and procedures;

ii) Since local labor law does not mandate these policies and procedures, management does not feel they need them;

iii) Worker reviews or performance is tied with reaching production goals, but not related to promotion opportunities;

iv) Management's lack of awareness of FLA Benchmarks on Personnel Development.

COMPANY ACTION PLANS

1. Management is to adapt and implement policies and procedures on workers' personnel development and promotion opportunities within the company. 2. Training on workers' personnel development-related policies and procedures should be provided as part of an annual training on the factory's policies. Training in this subject should be given at least once annually to all factory staff (workers, supervisors, and managers) and be a reminder of topics covered in induction training. Ensure personnel development procedure includes possible promotion positions for factory workers. 3. A copy of training materials should be maintained in addition to photos/sign-up sheets. Management is to name a staff member responsible for Personnel Development policy creation and implementation.

Action plan status: Planned
Planned completion date: 02/28/14

FINDING NO.3

COMPENSATION

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation
Based on workers' perception, their salary is not enough to cover all basic needs and provide a discretionary income.

Local Law or Code Requirement
FLA Workplace Code (Compensation benchmark C.1.3)
Root Causes

i) The Mexican apparel industry currently does not provide wages that allow for the fulfillment of basic needs plus a discretionary income;

ii) Management’s lack of awareness of FLA Workplace Code and Benchmarks;

iii) The issue has never been brought to management’s attention before;

iv) There is no wage structure in the factory that would enable workers to progressively earn a wage level that meets basic needs.

COMPANY ACTION PLANS

1. Since [Factory name] Plants 2 and 4 participated in FLA’s Fair Wage Self-Assessment and Worker Survey in 2012 and 2013, and the factories are part of the same management group, management should analyze if recommendations from past assessments could be applicable to [Factory name] Plant 3, in order to inform workers how wages are calculated. 2. Management should analyze which strategies from the Fair Wage Assessment results could be applicable to keep workers from [Factory name] Plant 3 informed on how wages are calculated and compensated.

   Action plan status: Planned
   Planned completion date: 01/31/14

FINDING NO.4

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

i) During recruitment, Human Resources staff provides all new applicants a list of requirements for hiring, which includes the request of “union affiliation signature,” despite the fact that there is no union in the factory;

ii) Factory has not created and implemented an industrial relations policy and relevant procedures.

Local Law or Code Requirement
FLA Workplace Code (Employment Relationship benchmarks ER.1.1 and ER.3.2; Non-discrimination benchmark ND.2.1)

Root Causes

i) Factory has 2 other buildings in the same complex, which are unionized facilities. In those buildings, management also requires that new applicants sign their “union affiliation signature;” the same hiring and recruitment documents are used in all 3 locations;

ii) Lack of monitoring mechanisms/internal procedures to review and update policies and procedures;

iii) Management’s lack of awareness of FLA Industrial Relations Code and Benchmarks.

COMPANY ACTION PLANS

1. [Factory name] Plant - 3's HR department should regularly review all documentation used during hiring and recruitment to ensure that all documentation is updated according to the factory's current status related to the trade union. 2. Revise hiring procedure and recruitment documents and eliminate the request for workers to sign a "union affiliation agreement," since the factory has no trade union. 3. Factory management is to provide training on the Freedom of Association policy to all staff responsible for hiring. In addition, draft and implement an Industrial Relations policy. 4. Once the Industrial Relation policy is created, train workers, supervisors, and managers on this policy and on the Discrimination policy as well. Maintain documentation as proof that training was provided to workers, supervisors, and managers, such as sign-up sheets, photos, and post-training evaluation, to measure the effectiveness of training.
FINDING NO.5

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

i) There is no worker appeal process for those workers with a disciplinary action against them. Also, the disciplinary system does not include the opportunity for a third-party witness during the imposition of disciplinary actions or for a review of actions by a senior manager;

ii) There is no documentary evidence of verbal warnings.

Local Law or Code Requirement
FLA Workplace Code (Employment Relationship benchmarks ER.27.2.1, ER.27.3.3, and ER.27.4)

Root Causes

i) Traditionally, factories in the apparel industry do not consider the worker appeal process, presence of a third-party witness, and review by a senior manager part of their disciplinary procedures;

ii) Management’s lack of awareness of FLA Workplace Code and Benchmarks;

iii) Management does not see the need to formalize or document verbal warnings.

COMPANY ACTION PLANS

1. Factory management is to ensure that workers must be given the right to appeal disciplinary sanctions. Management is to devise a system of appeal for workers when they receive disciplinary sanctions. The right of appeal must be set out in the internal procedures and internal rules. 2. All warnings issued, written or verbal, and other records of discipline or reward to workers must be kept in personnel files. 3. [Factory name] Plant - 3 should include in Workplace Conduct & Discipline procedures: a) the review of disciplinary actions by senior management and b) a third-party witness from HR or workers during the disciplinary process. 4. Factory management must: a) train workers, supervisors, and managers on disciplinary procedures regularly and b) maintain documentation that supports training implementation, such as assistance lists for trainings, post-training evaluations, photos, and material used as a basis for trainings on disciplinary procedures.

Action plan status: Planned
Planned completion date: 03/28/14

FINDING NO.6

ENVIRONMENTAL PROTECTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory’s environmental protection policy does not include a commitment to minimize environmental impacts with respect to energy.

Local Law or Code Requirement
FLA Workplace Code (Employment Relationship benchmark ER.31.3)
Root Causes
New FLA Workplace Code and Benchmarks now include environmental protection requirements, which are new for Companies and their supplier base.

COMPANY ACTION PLANS
1. Factory management is to include a commitment in its environmental policy, which minimizes the factory's environmental impact with respect to reduction of energy, waste, and water use in production process and factory operation. 2. Training for all workers, supervisors and managers should be provided on the revised environmental policy. 3. [Factory name] Plant - 3 is to provide proof that training on environmental policy was provided to workers, managers and supervisors. The documents to provide proof could include sign-up sheets from training, training material, and post-evaluation records.

   Action plan status: Planned
   Planned completion date: 01/31/14

FINDING NO.7

HEALTH AND SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation
Factory has not registered the relevant certificate of labor skills (“Constancia de Habilidades Laborales”) for forklift operators at the Ministry of Labor, as Mexican labor law requires.

Local Law or Code Requirement
Ministry of Labor decree (December 30, 2004 and reformed on December 16, 2009), Article 3; FLA Workplace Code (Health, Safety and Environment benchmark HSE.4)

Root Causes
i) Lack of monitoring mechanisms/internal procedure to ensure that all licensees, permits, and certifications are updated and renewed when required by law.

Recommendations for Immediate Action
i) Factory management is to initiate the administrative process to obtain and register the relevant certificate of labor skills for all forklift operators;

ii) Assign someone responsible for ensuring that all licenses and permits are maintained up to date.

COMPANY ACTION PLANS
1. [Factory name] Plant - 3 management should obtain correspondent certificates of labor skills for all forklift operators. 2. Factory is to designate a person responsible for ensuring that all licenses and permits, which are applicable for the factory are maintained up to date and renewed on time.

   Action plan status: Planned
   Planned completion date: 01/31/14

FINDING NO.8

TRAINING

FINDING TYPE: Sustainable Improvement Required

Finding Explanation
Based on an in-depth review of the factory’s training practices, it was noted that, with respect to nearly all employment functions, training activities are not adequately being carried out for all factory positions. There are some focused training exercises targeting some specific groups of workers. However, administrative staff, supervisors, and those in managerial positions (HR and production) do not receive follow-up training.

**Local Law or Code Requirement**
FLA Workplace Code (Employment Relationship benchmarks ER.1.2, ER.17.1, ER.28.1, and ER.28.2)

**Root Causes**

i) Current training program does not address all training needs;

ii) Factory does not see the need to expand the list of topics already taught to employees;

iii) Absence of a mechanism to harmonize production needs with training needs.

**COMPANY ACTION PLANS**

1. Considering the following Employment Functions: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; Grievance System; Environmental Protection; and Health & Safety. [Factory name] - Plant 3 management should adapt the existing training program that includes an explanation of the policies and procedures of all Employment Functions mentioned. 2. Ensure all supervisors and managers and part of administrative staff (HR and Production) are trained on the abovementioned training program at least once a year and maintain documentation that supports training implementation, such as assistance list to trainings, post-training evaluation, pictures, and material used as a base for training. 3. Please provide information of when/how factory will provide training on Employment Functions to HR and Production staff over the next year and beyond.

   Action plan status: Planned
   Planned completion date: 12/20/13

2. Considering the following Employment Functions: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; Grievance System; Environmental Protection, and Health &Safety [Factory name] - Plant 3 management should adapt the existing training program that includes explanation of policies and procedures on all of the mentioned Employment Functions. 2. Ensure all supervisors, managers, and those in the administrative staff in HR and Production are trained on the abovementioned training program at least once a year and maintain documentation that supports training implementation, such as an assistance list for trainings, post-training evaluation, pictures, and material used as a basis for training. 3. Please provide information of when/how the factory will provide training on Employment Functions to HR and Production staff over the next year and beyond.

   Action plan status: Planned
   Planned completion date: 12/20/13

**FINDING NO.9**

**COMMUNICATION & WORKER INVOLVEMENT**

**FINDING TYPE:** Sustainable Improvement Required

**Finding Explanation**
For almost all employment functions, it was noted that the factory does not communicate its policies and procedures to the general workforce on an ongoing basis. There is an induction process, where all new hires are informed about some factory rules and practices, but there is no planned follow up to communicate updates and legal changes, except those related to salary increases through postings or refresher sessions. Normally, communication is unidirectional, meaning that it is from management to workers and not vice versa.

**Local Law or Code Requirement**
FLA Workplace Code (Employment Relationship benchmarks ER.1.2, ER.16.1, and ER.30.2)

**Root Causes**

i) There is no management appreciation of the benefits of having informed staff and workers;
ii) Top-down communication without workers’ feedback is culturally acceptable for management;

iii) The FLA’s Sustainable Compliance Initiative (SCI) methodology includes “Communication” as a Management Function, which is a new requirement for Companies and their supplier base;

iv) Management has not seen the need for ongoing and periodic communication with the workforce other than orientation/induction and some sporadic training activities.

COMPANY ACTION PLANS

1. Company management should analyze and ensure that there are policies and procedures on the following Employment Functions: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; Grievance System; Environmental Protection; and Health & Safety are communicated to workers regularly. Also, ensure that any update or change made in the local legal frame is included in existing policies and communicated to the entire workforce. 2. Ensure communication channels include the opportunity for workers’ input on policies and procedures related to abovementioned Employment Functions. 3. Workers’ input on compliance policy and procedure should be recorded by management.

   Action plan status: Planned
   Planned completion date: 04/30/14

FINDING NO.10

COMMUNICATION & WORKER INVOLVEMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

The workers’ integration component is missing throughout all employment functions. It implies that the factory has not established procedures to receive workers’ input/feedback on the creation and updating of policies and procedures. Workers are neither systematically integrated nor consulted on the decision-making processes regarding policy and procedure creation.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER.25.2)

Root Causes

i) Lack of management understanding of what integration implies and how to implement this management function;

ii) Management’s lack of awareness of FLA Workplace Code and Benchmarks;

iii) Management has not seen the need to formalize a worker integration process.

COMPANY ACTION PLANS

1. [Factory name] Plant 3 management is to ensure existing communication channels include worker input about the factory’s working conditions and activities. 2. The factory must improve communication with workers by informing them in advance when there will be an update or adjustment to existing policies or when a new policy will be created. 3. Institute systems which do this, such as worker committees; newsletters or magazines to which workers contribute; monthly meetings with management, etc. Possible communication channels are: grievance procedures, on-the-job development and training, giving information to workers about the possibility to provide their input on policies and procedures. 4. As part of remediation, please indicate the name and position of the person responsible for coordinating and include worker input on working conditions; policy and procedure creation; and how they will be integrated.

   Action plan status: Planned
   Planned completion date: 12/20/13
FINDING NO.11

REVIEW PROCESS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory does not have a formal system in place for the periodic review of its policies and procedures. Although the factory has conducted some recent and isolated efforts for reviewing and updating a few policies, it mostly happens when the factory is aware of a legal change; however, most policies and procedures are not reviewed on a periodic and ongoing basis. As an example, the factory’s hours of work procedure includes an 8-hour night shift (from 11:00pm to 7:00am), when the Mexican Federal Labor Law requires that all night shift work shall be performed with a limit of 7 hours.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.3 and ER.31.2)

Root Causes

i) Management has not seen the need to update all policies and procedures;

ii) Absence of staff with the specific responsibility of reviewing and updating policies and procedures;

iii) This issue has never been brought up to the factory’s attention during previous external audits before;

iv) Management’s lack of awareness of FLA Workplace Code and Benchmarks.

COMPANY ACTION PLANS

1. Management is to establish a procedure to review the policies of all Employment Functions: Recruitment, Hiring, and Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; Grievance System; Environmental Protection; and Health & Safety. All Employment Functions should be regularly revised and adapted according to factory circumstances, reforms to local applicable laws, etc. 2. Ensure all HR staff is trained accordingly once the policies of all Employment Functions are revised and updated. 3. HR department should nominate a person in charge to: a) perform the policy review process and b) coordinate training with HR and production supervisors and managers.

Action plan status: Planned

Planned completion date: 02/28/14