INDEPENDENT EXTERNAL ASSESSMENT
Worker Survey & Management Self-Assessment Report

COMPANY: American Eagle Outfitters
COUNTRY: China
FACTORY CODE: GS201204
SURVEY DATE: October 31, 2012
PRODUCTS: Apparel
TOTAL NUMBER OF WORKERS: 668
NUMBER OF WORKERS SURVEYED: 137

FLA Comment: American Eagle Outfitters, Inc. ceased affiliation with FLA at the end of 2013. Therefore, the company will not be reporting to FLA on the remedial efforts regarding issues identified in this report.
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EXECUTIVE SUMMARY

Fair Labor Association (FLA) conducted an Independent External Assessment in a factory in China, a supplier of American Eagle Outfitters, on October 31, 2012. The assessment evaluates a facility’s performance in upholding fair labor standards through effective management practices throughout the entire employment lifecycle of workers. The assessment includes a Worker Survey and a Management Self-Assessment. A total of 137 workers were randomly selected to anonymously participate in the survey. Management was also requested to complete an online self-assessment and to submit several documents for review. Comparing results from both sources enriches our understanding of the factory’s overall management system, and may point to possible root causes of system weaknesses in need of improvement.

Key Findings

- Workers have a rather high level of loyalty and satisfaction towards the factory, indicating a stable workforce in the factory.

- The factory has clear policies and procedures in place to manage its practices in relation to assessed Employment Functions; however, workers’ knowledge of these policies and procedures is insufficient, especially on wage components, the system for recording working hours, the non-retaliation policy of the grievance procedure, and workplace conduct.

- Local workers rated Industrial Relations, Grievance System, and Communication lower than migrant workers, implying their lower level of communication about and integration into factory’s affairs, and limited knowledge and usage of grievance channels.
I. INTRODUCTION

Fair Labor Association (FLA) conducted an Independent External Assessment in a factory in China, a supplier of American Eagle Outfitters, on October 31, 2012. The assessment evaluates a facility’s performance in upholding fair labor standards through effective management practices throughout the entire employment lifecycle, covering all aspects of a worker’s relationship with the facility, from their date of hiring to the end of their employment.

The assessment is comprised of a Worker Survey and a Management Self-Assessment. Findings from both the Worker Survey and the Management Self-Assessment: 1) provide a broad picture of the factory’s current conditions and 2) identify areas of good performance as well as weakness.

Worker Survey

At the time of the survey, there were 630 production line workers at the factory, out of whom 137 were randomly selected to participate in the survey. To protect the anonymity of respondents, workers were asked not to fill in their names on the questionnaire. Table 1 summarizes the basic characteristics of the surveyed workers.

Management Self-Assessment

Factory management was also requested to complete an online Management Self-Assessment and to submit relevant documents for review; this assessment is structured in line with the Worker Survey and aims to assess performance from management’s point of view. Comparing results

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1 Sample size was based on (+/-) 7.5% error range, at 95% confidence level. The total workforce of the factory is 668 and 630 of them are frontline workers. The sample selection is based on frontline workers.

2 Table 1 shows the basic characteristics of the workers participating in the survey. Numbers may not always add up to 100% due to unanswered questions. As for “Migrant or Local,” “local” here refers to worker’s legal registration in the city where the factory is located; “migrant” means otherwise.

3 The assessors reviewed some documents on the same day of the Worker Survey, reviewed documents include: factory’s existing policies and procedures; training records; payroll and pay slips; records of working hours; meeting minutes; filed grievances; and other related documents.
from both sources enriches our understanding of the factory’s overall management system, by showing how it is viewed from the factory floor and the management office.

II. KEY FINDINGS

The Independent External Assessment evaluates the impact of a factory’s practices on a worker’s employment lifecycle, from hiring, through workplace conduct and grievance procedure, all the way to termination and retrenchment. It examines the whole process, aspects of which are referred to as “Employment Functions:” 1) Recruitment, Hiring & Personnel Development; 2) Compensation; 3) Hours of Work; 4) Industrial Relations; 5) Workplace Conduct; 6) Grievance System; 7) Environmental Protection; 8) Health & Safety; and 9) Termination & Retrenchment. Each employment function is measured on a scale from 1 to 5. A score below 3 indicates substantive problems; a score between 3 and 4 shows both positive achievements and room for improvement; and a score above 4 demonstrates a notable performance.

Figure 1 displays the results from both the Worker Survey and the Management Self-Assessment with respect to each Employment Function. In general, the factory maintains fairly good practices for each of the 9 assessment dimensions. Except for Industrial Relations and Grievance System, workers score all dimensions higher than 4. Both workers and management rate Grievance System the lowest, indicating possible a deficiency in policy and implementation regarding the grievance procedure. In addition, a large gap is observed between management and workers in Industrial Relations. A wide range of difference in perception between management and workers may point to possible root causes of system weaknesses. Detailed analysis on each dimension is provided below.
2.1 Recruitment, Hiring & Personnel Development

This employment function covers the hiring process and procedure, investigating their implementation within the factory. The Management Self-Assessment shows that recruitment is done mainly through screening students in schools, current employee recommendations, posting job announcements at the gate of the factory compounds, and posting job advertisements on the internet. Both the Management Self-Assessment and the Document Review indicate that the factory has detailed policy and procedures that regulate the recruitment process and comply with the existing national laws. This is in line with the results of the Worker Survey. Almost all (99%) workers have signed an employment contract with the factory and among them, 99% of them have a copy of their contract. The factory also provides job descriptions to explain detailed hiring terms and working conditions to workers, according to all participants.

Furthermore, most participants received orientation when they joined the factory (96%) and receive on-the-job training (88%). When asked about the number of orientation topics, the majority (69%) of workers know more than 6. Among workers who are covered by orientation (96%), 92% of them do not have difficulty understanding the training content. In addition, a large majority (88%) of respondents have received on-the-job training while working in the factory. Effective training also contributes to workers’ general awareness of factory policies and regulations. Close to half (44%) of workers know more than 9 of the 12 assessed aspects of policies and regulations; another third (33%) of respondents knows between 5 and 8 aspects. Workers also show a high level of comprehension regarding these policies and regulations, as 79% “fully understand” them and 19% understand them “to a certain extent.” It is splendid to see workers’ high awareness and understanding of the factory’s policies and regulations; subsequently, the factory is encouraged to continuously follow up on and improve its recruitment regulations and practices, and provide workers with sufficient training. In addition, the factory has reviewed 59% of workers, and almost all (95%) of them have received feedback from management.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Basic Monthly Salary (RMB)</th>
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<tbody>
<tr>
<td>Legal Local Minimum Wage</td>
<td>1,150</td>
</tr>
<tr>
<td>Basic Salary Offered</td>
<td>1,150</td>
</tr>
<tr>
<td>Average Monthly Salary</td>
<td>2,141 (Net)</td>
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</tbody>
</table>

* Source: Management Self-Assessment and Worker Survey

2.2 Compensation

Compensation examines the wage and benefits system within a factory, whether it complies with regulatory standards and if it ensures fairness and productivity. According to Management Self-Assessment results and the pay slips submitted for review, the basic salary offered by the factory is equal

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4 In this question, the orientation topics include 15 choices: working skills; wage and benefits; working hour arrangements and their recording system; wage payment day and mode; resignation and termination procedures; worker participation; workplace conduct; grievance procedure; evaluation procedure; environmental protection; disciplinary procedure; fire fighting and evacuation drills; dormitory rules; and workplace heath and safety.

5 The 12 assessed aspects are wage calculation; benefits and allowances; rewards and penalties; hours of work; overtime arrangements and overtime pay; grievance procedure; worker participation and integration; non-discrimination; harassment and abuse; health and safety at workplace; environmental protection; resignation and termination.
to the legally required minimum wage (see Table 2). Other than the basic salary, management states that the factory offers subsidized meals and accommodations⁶, along with an attendance bonus⁷. Additionally, the factory offers various kinds of legally entitled leave: annual leave, public holidays, sick leave, personal leave due to an emergency, marriage leave, and maternity leave⁸; 93% of workers claim that all their legally entitled leave is compensated.

Both management and workers (100%) agree that neither delay in payment nor underpayment have occurred in the factory over the last 12 months. Regarding overtime pay, a vast majority (96%) of participants claim that their overtime hours are always compensated and among them, 91% states that it is paid at a premium rate⁹.

Both management and a vast majority (91%) of workers agree that the current wage level is “absolutely” sufficient to meet their basic living needs¹⁰; 88% of workers feel “very satisfied” with the factory’s salary level.

2.3 Hours of Work

This section looks into the factory’s working hours management system and its daily practices. Management reports that there is no obvious distinction between peak season and off-peak season and that workers normally work 8.5 hours a day and 6 days per week; the maximum daily working hours are 10 when the factory is particularly busy. According to workers, the majority (76%) reports that they work 10 hours a day and 6 days a week when particularly busy, with 10% of workers indicating that they work 11 hours per day and 6 days per week. These results suggest that the factory has a system to manage the working hours; however, there are some risks leading to excessive long working hours in peak season. Management Self-Assessment mentions that sometimes in the past 12 months: 1) buyers have changed production styles after placing orders, 2) buyers have made untimely increases in ordered quantities, 3) raw materials or packaging materials supplied by buyers’ nominated suppliers often arrived in a damaged condition or late, and 4) the factory accepted orders that exceeded the factory’s production capacity. Thus, the factory is encouraged to: 1) track the factory’s production capabilities, 2) draw up an appropriate working schedule, and 3) refer to its productive capacity before accepting orders. In addition, buyers are also expected to be more supportive on these aforementioned issues.

Regarding the documentation of working hours and communication on overtime hours, the majority (87%) of workers agree that their working hours are well recorded through swipe cards;

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⁶ According to the Worker Survey, 93% of workers have gotten subsidized meals and 58% have received the free/subsidized accommodation.

⁷ Management explains that the attendance bonus is 3% of worker’s monthly salary and 96% of workers report that there is such a bonus in this factory.

⁸ Management reports that all above-mentioned leave is granted to workers, which is in accordance with the survey results, as most workers report that they have received annual leave (94%), public holidays (95%), sick leave (87%), marriage leave (94%), maternity leave (93%), and personal leave (77%).

⁹ Management Self-Assessment shows that the overtime is paid with differentiated rates: working days (150%), weekends (200%), and holidays (300%).

¹⁰ “Basic living needs” here refers to food, housing, clothing, schooling for children/dependents, utility expenses, etc.
however, a number (11%) of participants state that their working hours are not recorded at all, and the rest (2%) indicate that working hours are only partly recorded. These results suggest that information regarding hours of work is not well communicated to workers. In this factory, workers are paid according to an hourly rate system. Therefore, it should be ensured that the factory records workers’ regular and overtime working hours correctly and delivers the working hours information to all workers sufficiently.

Additionally, while management claims that workers are informed of overtime work in the morning of the same day, around one-third (34%) of respondents state they are only informed that afternoon or even later. As the sudden notice of an extra shift may negatively influence workers’ lives and decrease their job satisfaction, the factory is recommended to address this perception difference and to communicate to workers regarding overtime arrangements in a timely manner.

2.4 Industrial Relations
The Industrial Relations dimension examines the relationship between management and workers, focusing on communication, representation, consultation, and participation. According to management and Document Review, there is a trade union and 1 worker representative in the factory. Management further explains that information on the worker representative is delivered to workers during orientation training. Also, there is a meeting between the representative and management semiannually, which covers the topics of working hours; wage and benefits; work suits; etc. Likewise, a significant number of workers are aware of the existence of the trade union (91%) and the worker representative (100%) in the factory. In addition, 91% of respondents have participated in the worker representative elections and three-quarters (75%) clearly know the worker representative’s responsibilities.

However, it remains an issue that the worker representative may not cover all workers’ needs, due to there only being 1 worker representative11. Management claims that there is no need for improvement in this regard, as the sole worker representative in this factory has worked dutifully and conscientiously. If workers are not satisfied with this worker representative, they can pose grievances and reselect the representative. However, the low level of communication between workers and the representative implies potential risks. Based on the Worker Survey, more than two-thirds (70%) of respondents report that they have never talked to the worker representative about problems encountered or suggestions. This might be because the worker representative is not always available or accessible. Around one-third (31%) of workers state they have never attended any training on the worker participation and communication. Considering these findings, it can be seen that there is room for improvement with respect to Industrial Relations. The factory is advised: 1) to evaluate the work done by the current worker representative and to select more worker representatives to share the workload if necessary and 2) to better integrate workers into factory affairs and activities organized by the trade union.

2.5 Workplace Conduct
Workplace Conduct gathers knowledge on the rules and regulations that govern what is and what is not acceptable behavior among staff and workers at the factory. It probes the factory’s practices

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11 According to the Document Review, there is only 1 representative among 630 workers.
with respect to harassment, abuse, discipline, security checks, and workers' freedom of movement. Nearly all workers report that they have not experienced any forms of harassment and abuse (98%) or discrimination (99%), and that they have free access to water (100%) and toilets (93%). If workers felt a disciplinary action is unfair, the majority (96%) of them are willing to take the initiative\textsuperscript{12} to discuss with factory management instead of leaving the factory or doing nothing.

However, efforts are still needed to eliminate the significant perception difference between workers and management. The Management Self-Assessment reports that the factory has a policy in place regarding harassment, abuse, discrimination and discipline; however, more than half (53%) of participants are not aware of these regulations, indicating a communication gap between management and workers. Factory is advised to make sure all relevant policies are delivered well to all workers.

Although management denies they perform any kinds of searches, quite a number (15%) of workers report that the factory performs searches for security reasons. Among the 15%, one-third (33%) of them do not think that the security checks are always reasonable. These results imply potential risk of violation of FLA Benchmark H/A 10.2, which specifies that body searches and physical pat downs shall only be undertaken when there is a legitimate reason to do so and upon consent of workers, unless a state official with the power to do so (e.g., police officer) has ordered the search.

2.6 Grievance System

Grievance System examines a factory’s systems, policies, and practices on: 1) workers’ abilities to voice their opinions and complaints, 2) workers’ abilities to communicate with management on issues affecting their work and workplace environment, and 3) the factory’s ability to understand and address these issues, while also taking action to prevent similar problems in the future.

Management explains that there are several available grievance channels\textsuperscript{13} for workers to submit complaints and express concerns/problems in the factory, and 88% of workers recognize the existence of the grievance procedure. However, while almost all (98%) respondents are willing to express their dissatisfactions or concerns, only 8% actually have done so\textsuperscript{14}. One of the possible reasons for such low usage could be the poor follow up. Among the few (8%) who have used the grievance channels, more than a third (36%) feel there is no or insufficient follow up. Another influencing factor may be failure to communicate the non-retaliation policy to all workers. Although management indicates that there is a policy in place to protect workers from retaliation by management if workers lodge a grievance, close to half (44%) workers have no idea about this policy. Management claims that these policies are introduced to workers in the orientation training; however, with such low numbers of workers using the grievance channels, this training now appears less effective.

\textsuperscript{12} Based on the Worker Survey, 91% of workers will talk to the supervisor or middle/senior management, 5% will use the factory’s grievance procedure.

\textsuperscript{13} The grievance channels in the factory are suggestion box, talking to supervisors and HR, and talking to worker representatives.

\textsuperscript{14} 32% of workers report they have no concerns or problems; among the rest, 60% of workers have never used the channels even though they have concerns.
The factory is thus advised to take necessary measures accordingly and to: 1) emphasize the non-retaliation policy to every worker and dispel their worries about the negative outcome of submitting grievances, 2) establish an effective grievance documentation system to track the process of problem solving, and 3) provide sufficient training to the assigned staff responsible for handling grievances to improve the quality of grievance handling.

2.7 Health & Safety

This section explores the extent to which the factory ensures a healthy and safe work environment. Both Management Self-Assessment and Worker Survey results illustrate that the factory has made efforts to protect workers’ health and safety at production sites. A vast majority of workers think that their workplace is not dangerous and does not contain any health risks (96%) and that the factory provides sufficient personal protective equipment (PPE) to prevent them from unsafe exposure to health and safety hazards (92%). In addition, almost all participants report that there are easily accessible first aid kits on each production floor (96%) and that they have participated in evacuation drills organized in the workplace during the past 12 months (99%). In terms of living at the factory, most (72%) respondents do not live in the factory dorm; among the workers who live in the dorm (26%), 83% feel that the dormitory is not overcrowded and that there are enough toilets (100%) and shower facilities (100%). For those who dine in the factory’s canteen (71%), 91% of them think the canteen is clean and hygienic.

Nevertheless, factory management mentions that there were 3 work-related accidents in the last 12 months and 10% of respondents verify that they have witnessed some work-related injuries in the factory. Given this, it is still suggested for management to conduct regular checks to address potential health and safety risks and to take refining measures accordingly.

2.8 Environmental Protection

This employment function examines the knowledge and awareness of both workers and management on environmental protection. Survey results show that the factory has established policies and procedures on environmental protection and both workers and management display a high level of awareness of environmental protection. The factory management states that the factory’s policies and procedures mainly include a complete chemical inventory; a proper Material Safety Data Sheet; steps to be taken if there is an accidental release of these substances; and procedures associated with solid waste and water. These policies are well known by the majority (89%) of workers. In detail, 85% of respondents are clear about how to deal with production waste and know the dedicated area to store production waste (93%) and most (95%) workers value the importance of saving water and energy at the production site.

2.9 Termination & Retrenchment

This employment function examines the factory’s protocol when workers resign, and addresses the transparency, fairness, and objectivity of the factory’s termination and retrenchment policies and procedures. Results of both the Worker Survey and the Management Self-Assessment demonstrate that there are written policies and procedures regarding resignation at the factory and most (84%) workers are aware of these policies and procedures. The majority of workers report that these policies and procedures explain: 1) termination payout (85%), 2) steps workers must take prior to leaving the factory (82%), 3) responsible staff to process resignations
(81%), 4) relevant notice period (80%), and 5) written notification of resignation from the factory (69%).

When asked about whether the factory would force them to stay if workers wanted to leave, 96% reply no. Most respondents have neither heard nor witnessed workers leaving without notifying factory management (90%) or of management terminating workers’ employment without giving any legitimate reasons (96%), results which are echoed by the management self-assessment results.

2.10 Management Functions

The assessment also analyzes a factory’s performance in regards to 4 Management Functions: Policy & Procedure, Training, Implementation, and Communication. This allows for a comprehensive and systematic detection of potential risks and systemic failures. Worker Survey and Management Self-Assessment results (see Figure 2) reveal that more efforts should be invested in the dimension of Communication.

Communication refers to workers’ communication with both management and worker representatives. The results presented in Figure 2 suggest that the interaction between workers and management, and between workers and the worker representative are not sufficient. Most (92%) workers are well informed of their entitled right to refuse overtime work without fear of any negative consequences, but around a third (34%) are not fully informed of their overtime schedule. Regarding Industrial Relations, Worker Survey results show that the feedback on discussion results between the trade union and management is not well communicated to workers, as 35% have never received such feedback. Besides, as mentioned above, some issues, such as workers’ low awareness of relevant policies (such as grievance procedures and workplace conduct) can also be addressed through better communication.

2.11 Loyalty & Satisfaction

In addition to the 9 employment functions and 4 management functions, the Worker Survey also investigates workers’ satisfaction towards working at the factory and living conditions provided by the factory and their tendency to leave. In general, workers display a high level of loyalty towards this factory, which is conducive to the stability of workforce. As illustrated in Figure 3, 98% of workers indicate they do
not intend to leave the factory within the next 2 months. As to long-term employment plans, only a handful (6%) of workers note they intend to leave the factory in the next 2 years. More than half (60%) is certain that they will stay at the factory. The top reasons for workers staying are their satisfaction with the benefit package (85%), working hours (85%), and current wage (83%) in the factory. Moreover, a vast majority (78%) of workers are “very satisfied” with the factory’s working conditions; when referring to wage level, 88% of workers feel “mostly satisfied” (see Figure 4).

2.12 Correlation Analysis

Different elements are analyzed and measured to see if there are any factors that positively or negatively affect a factory’s overall performance. Key findings are as follows:

- Training is positively correlated with Communication and Implementation\(^\text{15}\). That is to say, workers who have received more sufficient training tend to be more communicative with management and worker representatives and more convinced that relevant regulations are implemented well in this factory.

- There is a significant perception gap between local and migrant workers in terms of Industrial Relations, Grievance Procedure, and Communication\(^\text{16}\). Local workers give lower scores to these dimensions than do migrant workers. In other words, local workers are communicated with and integrated into factory affairs to a lesser degree than migrant workers.

According to these findings, it can be concluded that the factory should offer more sufficient training to improve workers’ knowledge on the factory’s policy and procedures, and strengthen worker-management communication. Moreover, management is advised to investigate the different needs of local and migrant workers, and to pay attention to diverse opinions and suggestions when making factory-related decisions.

\(\text{15}\) The correlation coefficient between Training and Implementation is 0.558 (statistically significant at 0.01 level), the correlation coefficient between Training and Communication is 0.518 (statistically significant at 0.01 level).

\(\text{16}\) The result of one-way ANOVA shows that the scores of Industrial Relations, Grievance Procedure, and Communication between local and migrant workers are statistically different and the significance level is 0.05.