



2011

## FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** Under Armour, Inc., Adidas Group

**COUNTRY:** Philippines

**FACTORY CODE:** 430259239J

**MONITOR:** Donny Triwandhani

**AUDIT DATE:** December 13, 2011

**PRODUCTS:** Sportswear

**PROCESSES:** Cutting, Sewing, Embroidery, Finishing, QC and Packing

**NUMBER OF WORKERS:** 2,468



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## **Wages, Benefits and Overtime Compensation: Payment for All Hours Worked**

WBOT.7 Workers shall be paid for all hours worked in a workweek. Calculation of hours worked must include all time that the employer allows or requires the worker to work. (S)

### **Noncompliance**

**Explanation:** 1. Incidents of off-clock work (approximately 30-45 minutes) conducted after the assigned work shift as reported by workers. Workers reported that on occasion, they would punch out and come back to the work floor to finish the remaining workload. Reasons for this, as confirmed by the workers, include meeting the production quota and fear of being shouted at by the supervisor if they do not meet the assigned quota for the day. For this reason, they decide to go back to the work floor to complete and close the purchase order. These extra worked hours are reported not to be paid, as these are no longer recorded.

Sources: document review and worker interviews

2. Based on document review, late clock out /excessive worked minutes (up to a maximum of 56 minutes) in time records were observed. These records were not regarded as worked hours/ they were no compensation work hours. This was observed at least 7 times in the records reviewed. The management reported that the workers are no longer working during the said excess minutes. However, there is no sufficient system in place to monitor if the workers are actually working or not during these hours.

Sources: document review, management and worker interviews

Legal Reference: Labor Code of the Philippines (1974), Sec. 87 regulates that Work may be performed beyond eight (8) hours a day provided that the employee is paid for the overtime work, an additional compensation equivalent to his regular wage plus at least twenty-five percent (25%) thereof. Work performed beyond 8 hours on a holiday or rest day shall be paid an additional compensation equivalent to the rate of the first 8 hours on a holiday or rest day plus at least thirty percent (30%) thereof.

**Plan Of Action:** 1. While there is a memorandum on working without proper remuneration, factory management should create a written procedure verifying that when the bell rings or actual production ends workers do not return to work. All machines and lights in the production area shall be shut off. This is to prevent workers from loitering around the production area or working off the clock to meet and reach targets. The procedure should also include a provision that any line leader or manager will receive a sanction if there is any reported case of letting workers work beyond the paid working hours. There should be a responsible person to manage this regulation and corresponding disciplinary action. This procedure must also include a provision if he or she fails to implement the plan.

**Deadline  
Date:**

**Supplier  
CAP:** Factory will come up with a memorandum informing all employees that during break time and clock out time the sewing line will be shut off to ensure that no one goes back and continues to work without proper remuneration; a copy of the memo will be sent to SEA (Adidas's Social and Environmental Affairs department) by May 8, 2012.

**Supplier CAP  
Date:**

**Action  
Taken:** [Adidas Group update on Dec. 14 2012:](#) Workers interviewed revealed that workers used the 30 minutes maximum allowance and stayed on the production floor to work after punching out in order to achieve the quota. SEA advised the factory to change it from a 30-minute allowance to a maximum of 15 minutes to punch out. The factory should check if the current number of time recording machines are enough to accommodate all workers leaving the production floor all at the same time. Working hours in every production line must be the same (e.g. they should all be 7:00 to 4:00, rather than having some workers come from 7:00 to 4:00 and some workers from 8:00 to 5:00) in order to have the lights turn off completely after the bell rings.

[Adidas Group update Oct. 12, 2012:](#) Management interviews indicated that the memo was explained to the entire workforce via the paging system. The memo is posted on the bulletin board and a copy of the memo is uploaded in FFC in the verification document uploaded by the factory.

[Adidas Group update May 23, 2012:](#) 1. A copy of the memo regarding the requirement to shut off the machines during break time, lunchtime and after production hours was sent on May 3, 2012 with an effective date of May 5, 2012. SEA to further conduct verification if effective. Additionally, the factory has issued a memorandum to all workers, under the section "working without proper remuneration," stating that the company requires all supervisors and department managers to adhere to the policy, thereby advising employees to refrain from unauthorized work before or after their working schedule to avoid cases of working without proper remuneration. SEA also requested the factory to communicate this policy clearly to the workforce. Further verification is required for this issue.

**Plan  
Complete:** No

**Plan  
Complete  
Date:**

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### **Harassment or Abuse: Discipline/Training of Management**

H&A.7 Employers shall ensure managers and supervisors are fully familiar with the factory disciplinary system and trained in applying appropriate disciplinary practices. (P)

#### **Noncompliance**

**Explanation:** It was noted that the line leaders and cell supervisors have been provided with leadership training on May 13, 2011. However, managers, line leaders and cell supervisors are not trained in appropriate disciplinary practices in order to ensure the disciplinary action taken was in accordance with the employee handbook. Based on the juvenile monthly meeting, recorded on October 29, 2011, it was reported by 1 juvenile that the line leader threatened her that if she didn't do her job well the line leader would issue a memo (warning letter) until she gets terminated. In practice, line leaders and cell supervisors have authority to determine whether or not the worker is subject to receiving a warning letter. Then the natures of the violation/mistakes are reported to HR department, which in turn, issues the warning letter and communicates it to the respective worker.

Sources: document review, management and worker interviews

**Plan Of Action:**

1. Factory management should draft and implement a grievance procedure for workers to file any grievances or complaints directly to factory management.
- 2A. While there is an available policy on grievances, factory should have a re-orientation for all line leaders and above to ensure proper implementation of the policy.
- 2B. The human resources department should also have a general orientation for all workers on what to do in case they are harassed in any way. This orientation should also highlight the factory's commitment to prohibiting all forms of harassment and abuse.
3. A verifiable document to support the orientation must be sent to SEA to verify such activity.

**Deadline  
Date:**

**Supplier CAP:** Factory sent the members of the grievance committee, HR IR, HR Supervisor and others to the "Grievance Handling" seminar last April 20, 2012. Factory HR will also offer the seminar to the line leaders and cell supervisors of the factory during the month of June 2012. Attendance sheets will be submitted to SEA after the said training.

**Supplier CAP Date:** 06/15/2012

**Action Taken:** Adidas Group update Dec. 14, 2012: 1. Done

2A. Done

2B. SEA further interviewed workers and confirmed that they have not experienced nor heard of any verbal abuse as of this audit. We also received the same indication of no more workers' feedback via the SEA Workers hotline.

Adidas Group update Oct. 12, 2012: 1. Factory has a grievance procedure in place, which has been posted on the bulletin board. Factory management has used the paging system for re-orientation as confirmed during workers' interviews during this audit and part of the Pulong-Pulong (workers' meeting with Management). The grievance committee, together with the HR supervisors and the HR manager, were sent to the grievance-handling seminar on April 20, 2012 and as a result, the HR Manager conducted re-orientation for the line managers and cell supervisors in a series of orientations in June 2012 inside the factory.

2A. An anger management seminar was held July 5, 2012 and was conducted by the HR manager and was attended by all the line leaders. This seminar was to get the supervisors and managers to support the non-harassment policy. Attendance records are on as per inspection.

2B. The anti-harassment policy and the grievance procedure have been provided to workers by the paging system. A new copy of the anti-harassment and the grievance procedure is re-posted on the bulletin board.

Adidas Group update, May 23, 2012: From the SEA investigation in early May, there were some cases of verbal harassment found.

1. The factory has been requested to immediately strengthen the grievance handling policy.

2A. Additionally, factory management has been asked to provide a re-orientation for all line leaders and above to ensure proper implementation of this policy.

B. Based on verbal harassment found during the last visit, the SEA team requested the HR Department to post the anti-harassment policy in the workplace and conduct refreshment training to all the workers.

**Plan Complete:** Yes

**Plan Complete Date:** 12/14/2012

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### Harassment or Abuse: Discipline/Verbal Abuse

H&A.11 Employers shall not use any form of verbal violence, including screaming, yelling, or the use of threatening, demeaning, or insulting language, as a means to maintain labor discipline. (S)

#### Noncompliance

**Explanation:** Based on record reviews and worker interviews, it was noted that supervisors sometimes yell at the workers in the line if they are behind the quota. This would normally happen on days approaching the shipment date. The juvenile monthly meeting record, dated October 29, 2011, showed that some get scared when the cell supervisor yells on the floor. Factory management provided feedback on this complaint and explained that supervisors may shout due to the noise of production, or sometimes to push everyone to hit the targets due to the tightness of the schedule, and also informed the workers that they should report it to the HR department for disciplinary action if it becomes personal. However, shouting on the work floor still continues and the monitor did not observe any disciplinary action against the supervisors for shouting or yelling.

Sources: document review and worker interviews

**Plan Of Action:**

1. While there is a policy on verbal harassment and proper disciplinary procedures in the company handbook, there is a need to do a refreshment seminar for all supervisors and above (including line leaders) to ensure their understanding on the seriousness of these problems and the corresponding action if an instance of harassment is proven.
2. The HR manager must co-ordinate a training program for managers in order to communicate the harassment policy as well as any corresponding disciplinary action. The factory's labor audit team should be set up to verify the effectiveness of the policy implementation. An executive person must be assigned to manage the policy on any harassment or abuse and juvenile workers' welfare.



**Deadline  
Date:**

**Supplier  
CAP:** Factory sent the members of the grievance committee, HR IR, HR supervisors and others to the "grievance handling" seminar last April 20, 2012. Factory HR will re-offer the seminar to the line leaders and cell supervisors of the factory during the month of June 2012. Attendance sheets will be submitted to SEA after the said training.

**Supplier CAP  
Date:**

**Action  
Taken:** Adidas Group update Dec. 14, 2012:

1. Done and verified with workers during interviews.
2. 1 worker interview confirmed that she received the training and confirmed there is 1 dedicated HR staff to manage the system. Note that she will turn 18 years old this coming February 2013. Other juvenile workers have already turned 18 since October, November and December 2012.
3. Done and confirmed effective.
4. Done and confirmed effective, per workers interviewed, and SEA worker's hotline does not receive any more harassment case calls from workers.

Adidas Group update Oct. 12, 2012:

1. Grievance policy and procedure has been provided to workers through the paging system and has been re-posted on the bulletin board. A sit-down special orientation with juvenile workers has also been conducted.
2. Based on juvenile workers interviewed, juvenile workers indicated that they have 1 dedicated HR staff to manage them. This is also confirmed with other types of workers during worker interviews.
3. Anger management was conducted by HR management on July 5, 2012 for line leaders, cell supervisors and managers per attendance records inspected. HR managers conducted another set of orientations on the grievance policy.
4. Based on training or orientation records, line leaders and supervisors have been properly oriented on anti-harassment and abuse policy.

Adidas Group update May 23, 2012: From the SEA audit in early May, juvenile workers cited cases of verbal harassment from the supervisor. From document investigation, it was found there were 2 written cases of verbal harassment sent to HR and HR staff had already handled them.





1. Similar to the issues pointed out in H&A.7 above, the factory has been requested to strengthen their grievance policy and conduct training for all levels of workers on the grievance procedures, especially juvenile workers.

2. Furthermore, the factory has assigned 1 HR staff to act as a counselor for juveniles if they have any problems in the workplace. The progress of this case is still pending for further review by SEA.

3. In addition, SEA has addressed the HR manager and told the manager that the supervisors and line leaders need to be aware of the harassment and abuse policy and provide them with the training to prevent any future cases of verbal harassment.

4. Factory management must review the case with HR and ensure that all the line leaders and supervisors are fully aware of anti-harassment and abuse policy. SEA to verify the progress of this action in the next audit.

**Plan Complete:** Yes

**Plan Complete Date:** 12/12/2012

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### **Child Labor: Proof of Age Documentation**

CL.3 Employers shall collect and maintain all documentation necessary to confirm and verify date of birth of all workers, such as birth certificates. In addition, the employers shall take reasonable measures to ensure such documentation is complete and accurate. (P)

#### **Noncompliance**

**Explanation:** It was noted that the canteen is managed by a subcontracted food service. Around 30 outsourced canteen workers work in the factory's canteen. However, the factory does not maintain a copy of their age documentation, such as birth certificates, to confirm and verify the date of birth of all outsourced canteen workers.

Sources: document review, management and food service representative interviews

**Plan Of Action:** 1. Factory should adopt strict regulations that all canteen concessionaires submit a copy of all workers' files with complete copies of workers' age verification documentation and other mandated documentation, e.g. permits and licenses.

**Deadline Date:**



**Supplier CAP:** Effective January 2012, canteen concessionaire is required to submit updated manpower list and employment requirements of all their canteen personnel to facility's HRD.

**Supplier CAP Date:**

**Action Taken:** [Adidas Group update Dec. 14 2012](#): Done. Additional proofs of birth are also submitted and are in workers' files. This includes documents such as the National Bureau of Investigation clearance certificate.

[Adidas Group update Oct. 12, 2012](#): Canteen workers were interviewed to verify their understanding of the need to have a sanitary and mayor's permit. Interview indicated full understanding.

[Adidas Group update May 5, 2012](#): Completed: SEA conducted an inspection of canteen workers' files, which are documented and kept in the factory's human resources department. The records included in the workers' files are: contract of employment, SSS and birth certificates, as well as copies of health and sanitary permits, and an original copy of the memorandum. A memorandum was issued in March 2012 by [local food service company name] addressing the guidelines for working overtime for canteen staff. They set a system requiring canteen workers to fill out an OT form. The full memorandum can be found in the supporting documents in FFC. The SEA team interviewed canteen owners to ensure their understanding of these requirements. Based on interviews, it was verified that they have a proper understanding and commitment to ensure that copies of all required documentation is submitted to the factory and it was verified that they have an understanding of the overtime policy. A copy of the memorandum regarding submission of required documents as well as a photo of the workers' files have been submitted to FLA for review.

**Plan Complete:** Yes

**Plan Complete Date:** 12/12/2012

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## No Child Labor: Employment of Young Workers

CL.6 Employers shall comply with all relevant laws that apply to young workers (i.e., those between the minimum working age and the age of 18) including regulations relating to hiring, working conditions, types of work, hours of work, proof of age documentation, and overtime. (P)

### Noncompliance

**Explanation:** The factory has a written policy to protect juvenile workers. Employee handbook chapter I states that no supervisor, department, or senior manager shall permit or allow any juvenile to work the night shift or beyond the 8 hour work schedule, since this denotes hazardous work. However, it was noted that work restrictions for juvenile workers are not adequately monitored. For example: 1 female juvenile, 17 years old, worked the afternoon shift from 2:00pm to 11:00am on October 17 & 18, 2011. She started to work at 5:00 am in morning shift during the period from October 19 to October 29, 2011. Moreover, she worked overtime 2 to 2.5 hours per day or she worked a total of 10.5 hours per day for 2 days in October 2011 with 1 Sunday worked on October 23, 2011.

Sources: document review, management and worker interviews

Legal Reference: Department Order No. 65-04 (2004), Sec. 15(b) regulates that the following hours of work shall be observed for any child allowed to work under Republic Act No. 9231 and these rules: (b) For a child 15 years of age but below 18, the hours of work shall not be more than 8 hours a day, and in no case beyond 40 hours a week. Republic Act No. 6237 (1971), Sec. 5(b) regulates that no child who has attained the age of 16 years but is below the age of 18 years shall be employed or permitted or suffered to work in any shop, factory, commercial or industrial establishment or other place of work between 6 o'clock in the afternoon and 7 o'clock in the morning of the following day.

**Plan Of Action:** 1. Factory management should revisit and revise the juvenile policy to ensure compliance with local regulations, such as: no juvenile workers are allowed to work beyond 40 hours per week and the night shift as per local regulation definition.

**Deadline Date:**

**Supplier CAP:** Revised juvenile policy to take effect January 1, 2012 in accordance to RA 9231.

**Supplier CAP Date:** 06/30/2012

**Action Taken:** [Adidas Group update Dec. 2012:](#) This issue is closed, and there are no further findings.

[Adidas Group update Oct. 12, 2012:](#)

1. New and revised juvenile policy was created.
2. Further juvenile workers' interviews confirmed that the new policy has been implemented. Juvenile workers work 40 hours a week, and their schedule starts at 6 or 7 am and goes to 2 or 3 in the afternoon with no work on Saturday and Sunday.
3. Since juvenile workers are not allowed to work more than 40 hours a week,
4. Juvenile worker interviews and workers' files verified that there is a copy of transmittal with signatures, with workers acknowledging that they received a copy of the handbook that was distributed in June and July 2012.

[Adidas Group update May 23, 2012:](#)

1. Factory management created a revised policy that conforms to the local regulations on juvenile workers as per SEA inspection conducted on December 28, 2011, with an effective date of January 1, 2012. In May 2012, as per SEA investigation of this case, it was found that the HR has set up a system to control the overtime work.
2. From juvenile worker interviews, all of the juvenile workers stated that they are fully aware that they are not allowed to work overtime and only perform light work.
3. A copy of some incidents of verbal harassment and the resulting disciplinary action implemented by human resources is uploaded in the report. SEA to review the progress and crosscheck this again in the next audit to verify the sustainability of the control system.
4. Lastly, interviews indicated that juvenile workers have not received the handbook. SEA to input this as an action plan for factory to improve. A copy of this policy is uploaded here in this audit report.

**Plan Complete:** Yes

**Plan Complete Date:** 12/12/2012

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**Code Awareness:**

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

**Noncompliance**

**Explanation:** Training or orientation of the company code of conduct is not provided to any of the 30 outsourced canteen workers.

**Plan Of Action:** 1. All canteen workers and owners must have proper orientation on the company code of conduct to ensure understanding and compliance.

2. A copy of document showing this is properly done must be submitted.

**Deadline Date:**

**Supplier CAP:** Factory conducted an orientation regarding the company code of conduct for all workers by February 2012.

**Supplier CAP Date:**

**Action Taken:** Adidas Group update Oct. 2012: SEA conducted an interview with canteen workers and in a further management interview, both indicated awareness of the Workplace Standards.

Adidas Group update May 23, 2012: 1. Completed: SEA reviewed the attendance sheet for the orientation dated February 2, 2012, which indicated that the factory had conducted training and an orientation on the SEA Workplace Standards. Based on 2 canteen worker interviews and an interview of the canteen owner conducted by SEA, it was confirmed that they understood the content of the CoC.

**Plan Complete:** Yes

**Plan Complete Date:** 10/12/2012

**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:** It was noted that the company (Under Armour) has not developed a secure communication channel to enable workers to report noncompliance to the company.

Sources: observation; management and worker interviews

**Plan Of Action:** UnderArmour is in the process of establishing a hotline for the workers covering this supplier. The company will provide an update on how the hotline is communicated to the workers once this is achieved.

Adidas: Not applicable for update

**Deadline Date:** 08/31/2012

**Supplier CAP:**

**Supplier CAP Date:**

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**

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## Miscellaneous: Illegal Subcontracting

### MISC.1 Illegal Subcontracting

#### Noncompliance

**Explanation:** It was noted that the monitoring of outsourced canteen workers is not conducted in terms of age, work hour, wage, or employment practice. Around 30 outsourced workers work in a shift system. Based on document review, the following concerns were noted:

A. Night differential (10% of current rate) is not paid to the outsourced canteen workers under the canteen concessionaire working between 10:00pm and 6:00am.

B. Overtime beyond 8 hours on Sunday for outsourced workers under the canteen concessionaire is not properly compensated. OT is compensated at the following rate: Regular hourly rate X 1.3 instead of the rate required by law, which is the regular hourly rate X 1.3 X 1.3.

C. Contractual workers under the canteen concessionaire (22 out of 30) are not provided with legally mandated benefits such as Social Security (SSS), Philhealth and Pag-Ibig.

D. Outsourced canteen workers under the canteen concessionaire paid for their pre-employment medical exams with amounts ranging from PHP 250 to PHP 350.

E. Outsourced canteen workers under the canteen concessionaire are not provided with the required uniforms (yellow shirts and black pants). They are required to pay PHP 150 /uniform.

F. Outsourced canteen workers under the canteen concessionaire have cash advance deductions as reflected in payroll records reviewed. However, no written authorization is in place for the said deduction.

G. Time cards are not signed by the outsourced canteen workers under the canteen concessionaire.

Sources: document review, management and canteen worker interviews

Legal References: Labor Code of the Philippines (1974), Sec. 86 regulates that every employee shall be paid a night shift differential of not less than 10 percent (10%) of his regular wage for each hour of work performed between 10 o'clock in the evening and six o'clock in the morning. Labor Code of the Philippines (1974), Sec. 93(a) regulates that where an employee is made or permitted to work on his scheduled rest day, he shall be paid an additional compensation of at least thirty percent (30%) of his regular wage. An employee shall be entitled to such additional compensation for work performed on Sunday only when it is his established rest day. Republic Act No. 7875 - National Health Insurance (1995), Article III, Sec. 6; Social Security Law (1997), Sec. 9(a); and Republic Act No. 7742 "Home Development Mutual Fund Law of 1980 or the Pag-IBIG Fund" Sec. 4 regulates that coverage in the State Insurance Fund shall be compulsory upon all employers and their employees not over sixty (60) years of age: Provided, that an employee who is over (60) years of age and paying contributions to qualify for the retirement or life insurance benefit administered by the System shall be subject to compulsory coverage. Omnibus Rules Implementing the Labor Code (1989), Book III Rule X, Sec. 7 regulates that every employer shall keep an individual time record of all his employees bearing the signature or thumb mark of the employee concerned for each daily entry therein by means of any of the following methods: (a) Through the use of punch clock by means of which an employee can punch in his individual card the time of arrival and departure from work; (b) Through the employment of a timekeeper whose duty is to time in and out every employee in a record book; and (c) By furnishing the employees individually with a daily time record form in which they can note the time of their respective arrival and departure from work.

**Plan Of  
Action:**

Factory should ensure that:

- A. Night differential must be paid to all type of canteen workers and proof of payment must be submitted to SEA. According to the labor law, night differential is the period between 10 p.m. to 6 a.m. For any work performed during this period, the worker must be compensated at 10% additional to the base payment. SEA has requested HR to include this clause in the workers' handbook as well.
- B. Canteen owner to ensure that Sunday workers are properly compensated. All unpaid Sunday work beyond 8 hours must be paid back to workers according to the mandated premium for rest days.
- C. All workers regardless of type of employment (probationary or trainee) must receive government-mandated benefits such as Social Security, Phil. Health Insurance and Home Development Insurance.
- D. All workers including newly hired canteen workers must not shoulder the cost of medical expenses
- E. All required uniforms and work related canteen tools must be provided for free by the canteen owner



F. Canteen workers must have a written acknowledgement for any deductions, since local regulation dictates this for deductions other than the mandated deductions.

G. Time cards of canteen workers must have worker signatures. This must be included in the orientation.

**Deadline**

**Date:**

**Supplier**

**CAP:**

To comply with findings, the factory will:

A. While it is the industrial practice that most canteen owners generally do not pay ND (night differential) to their workers; however, the canteen will start paying ND to their workers who will work from 10:00 pm - 6:00 am, effective May 2012.

B. This is not possible since factory seldom has Sunday work. The 5 workers found to have worked on a Sunday were assisting the free clinic activity at the factory and were all paid accordingly. Canteen submitted proof to SEA. Furthermore, canteen owners sent out a memorandum to their workers informing them of the guidelines whenever they have to render OT.

C. Due to financial constraints and since it is a requirement that canteen owners must comply, they will give 100% of government-mandated benefits and will submit to this commitment on the effective date.

D. Canteen workers were informed that pre-employment medical exams will be shouldered by the canteen owners, effective April 2012.

E. Canteen owners will provide uniforms to their workers for free starting May 15, 2012.

F. Canteen owners informed their workers that effective March 1, 2012, they will all sign an Authority to Deduct form for any cash advance they will take.

G. Canteen workers were made to sign their time cards after every payroll cut off.

**Supplier CAP**

**Date:**

**Action**

**Taken:**

[Adidas Group update Oct. 12, 2012:](#)

A. The night differential is being paid by the Canteen - upload payroll sample June and September 2012.

B. Sunday work is being paid - verified May 2012.

C. Government benefits are being paid effective June 2012 to 12 persons as of this audit.

D. Medical expenses paid by owners - verified last May 2012

E. Uniform - verified last May 2012

6. Authority to deduct - verified last May 2012

7. Attendance - verified May 2012.

F. Done as of May 2012.

G. Done and re-inspected this audit and confirmed conformance with the requirement.

Adidas Group update May 23, 2012: Based on worker and canteen owner interviews, and document inspection, it was found that:

A. Night differential payment will take effect on May 1, 2012 (pending) SEA to verify this issue in the next visit.

B. According to the management, it was stated that there was an excess hour worked on Sunday, due to the annual free clinic activity hosted by the factory. Proof of payment during free clinic on September 18, 2011 has been sent to FLA for review.

C. Pending: SEA has informed the factory that they must ensure that all workers must be provided with mandated benefits regardless of their type of employment status. The factory must communicate this to the canteen owner for the commitment to effectively implement this. Verification is to be made in the next audit. Unclear and incomplete update.

D. Memo dated March 26, 2012 was verified on-site by SEA indicating that canteen owner must pay medical expenses. Workers who were interviewed and who were newly hired confirmed this.

E. A copy of the memorandum dated May 2, 2012 stated that the canteen owner will provide uniforms and any tools required to perform the job for free effective May 15, 2012.

F. A memo on authority to deduct dated February 20, 2012 was reviewed along with the authorization form. The documents were sent to the FLA for review.

G. 10 sets of worker attendance records with worker signatures were inspected by SEA. Copies of the attendance sheets were sent to FLA for review.

**Plan Complete:** Yes

**Plan Complete Date:** 10/12/2012

**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:** It was noted that only 3 safety officers are in place for a total of 2,468 workers. A third safety officer was not certified. The said officer has not yet undergone the bureau prescribed up-to-date training. As per law, 5 safety officers are required for the facility's workforce of 2,468.

Sources: document review and management interview

Legal References: Department Order No. 16 - Training and Accreditation of Personnel on Occupational Safety and Health (2001), Sec. 1033(3) states: Not less than the following number of supervisors or technical personnel shall take the required trainings and shall be appointed as a safety officer on a full-time or part-time basis, depending on the number of workers employed and the hazardous or non-hazardous nature of the workplace pursuant to Rule 1013 of these Standards. a) For hazardous workplaces: Minimum No: of Workers No: of Hazardous Highly Hazardous Safety Officers 1-50 One (1) part-time One (1) full-time 51-200 One (1) full-time (1) full-time and One part-time 201-250 One (1) full-time One (1) part-time Two (2) full-time 251-500 Two (2) full-time Two (2) full-time and One part-time Every additional 500 or fraction thereof One (1) additional full-time Every additional 250 or fraction thereof One (1) additional full-time b) For non-hazardous workplaces: No: of Workers Minimum No: of Safety Officers 1-250 One (1) part-time 251-500 Two (2) part-time 501-750 One (1) full-time 751-1000 Two (2) full-time Every additional 500 or fraction thereof One (1) additional full-time

**Source of Finding:**

**Plan Of Action:** 1. Factory should hire 3 more safety officers who are certified and 1 SO must get a certification in order to reach 5 safety officers in the workplace.

**Deadline Date:**

**Supplier CAP:** We already have a total of 6 PCSO/HSE coordinators as of May 3, 2012 and 4 are already certified; 1 has attended the OSHO training while the other 1 is still waiting for the next training, tentatively scheduled August 20-25, 2012.

**Supplier CAP Date:**



**Action Taken:** [Adidas Group update December 14, 2012](#): SEA reviewed the list of safety officers. This factory still maintains numbers in the workplace as required by the law.

[Adidas Group update Oct. 12 2012](#): As per document inspection, the factory already has 5 safety officers with certifications that are registered with the Adidas SEA OSHO program that is currently in process.

[Adidas Group update May 5, 2012](#): 1. 4 certified safety officers were on-site as per interviews and document review (photo sent to FLA for review). Lacking 1 safety officer who is awaiting certification as of May 5, 2012.

**Plan Complete:** Yes

**Plan Complete Date:** 12/12/2012

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### Health and Safety: Communication to Workers

H&S.6 The health and safety policy shall be communicated to all workers in the local language or language(s) spoken by workers if different from the local language. (P)

#### Noncompliance

**Explanation:** During factory walk-through, 2 cutting workers were observed to not be using the metal mesh gloves while cutting. In addition, workers in the bonding section were not properly wearing the provided earplugs.

Sources: observation

Legal References: Occupational Health and Safety Standards, Rule 1090 -Hazardous Materials (1990), Sec. 1093.03 regulates that (1) Workers shall be provided with, and shall use personal protective clothing and equipment in accordance with the requirements of Rule 1080. (2) Personal protective equipment shall also be used to supplement control methods when such measures cannot adequately eliminate the hazard or when other measures are not possible.

**Plan Of Action:** 1. While there is a policy requiring PPE for certain production and machine work along with a corresponding disciplinary action, factory should ensure that re-orientation on safety awareness is conducted for all workers.

2. A copy of the training records on PPE usage and sign up sheets have been submitted to SEA and uploaded along with the supportive documentation (in FFC).

3. Internal audit by the safety team must include the usage of PPE.

**Deadline  
Date:**

**Supplier  
CAP:** Conduct quarterly safety awareness trainings for all operators, especially those exposed to hazardous operations.

**Supplier CAP  
Date:**

**Action  
Taken:** Adidas Group update Dec. 14, 2012:

1. Done and maintained.
2. All of the items updated in October are still well maintained by the factory internal audit teams.
3. There are still monthly audits by the safety officers to ensure that workers are using proper PPE.
4. The factory has also included a PPE training plan for the 2013 yearly audit schedule.

Adidas Group update Oct. 12, 2012:

1. Done and verified.
2. Based on inspection, workers are using PPE such as mesh gloves. Training records of PPE training is available on file. Training was held in May 2012 and was attended by workers who were required to use PPE, namely: cutting workers, electricians.
3. Internal audit team records indicated that PPE review is part of their monthly inspection. The audit is carried out on a monthly basis. No finding on this issue.
4. Based on training documents such as attendance records, this is sufficient, with support from the internal audit team inspection.

Adidas Group Update May 23 2012: Partly completed.

1. SEA conducted the audit in early May to verify the issue of PPE. From factory inspection, it was found that most of the workers at the cutting station were all using mesh gloves. At bonding section, SEA observed that workers were using earplugs provided by the factory. SEA also uploaded the document, which supports the distribution of mesh gloves to the workers in the cutting section (in FFC).
2. SEA to verify the system in the next visit to ensure that all workers are using proper PPE as required by their task as well as review the on-going records of training on PPE which should be part of the annual training program.

3. SEA to review in the next audit if the safety officer will conduct an internal audit to verify this issue.

4. SEA to review the training document in the next audit.

**Plan Complete:** Yes

**Plan Complete Date:** 05/10/2012

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### Health and Safety: Machinery Maintenance and Worker Training

H&S.18 All production machinery, equipment and tools shall be regularly maintained and properly guarded. Workers shall receive training in the proper use and safe operation of machinery, equipment and tools they use. Employers shall ensure safety instructions are either displayed/posted near all machinery or are readily accessible to the workers. (S)

#### Noncompliance

**Explanation:** During factory walk-through, at least 12 sewing machines and 4 button sewing machines were observed to either be missing lower pulley guards or are equipped with inadequate lower pulley guards. The worker side is not protected. In addition, 1 sewing machine was observed to be missing the upper pulley guard. 1 compressor was also observed to be missing its pulley guards.

Source: observation

Legal Reference: Occupational Health and Safety Standards, Rule 1200 -Machine Guarding (1990) Sec. 1204.01 regulates that the point of operation of machinery shall be effectively guarded.

**Plan Of Action:** 1. Factory to ensure all sewing machines and other equipment is installed with necessary safety guards such as pulley guards.

2. A full inspection must be conducted by the factory HSE committee on a monthly basis.

**Deadline Date:**

**Supplier CAP:** We have installed back covers in all our sewing machine motors. The lower pulley is too far out for a worker's knee to touch and get hit. All workers wear hairnets too and they are not allowed to wear loose clothing, especially since we have moving machinery inside the production area. Moreover, each operator has their individual BEC checklist, which they have to accomplish daily.

**Supplier CAP Date:**

**Action Taken:** Adidas Group update Dec. 14, 2012:

1. From the factory tour, all sewing machines have been equipped with pulley guards and needle protectors. Some old machines do not have compressor covers per inspection at ground floor production sewing area. SEA has informed the factory that they must ensure that both old and new machines must be updated with pulley guards and needle protectors.

2. An internal audit conducted by the compliance team has included 100% checking of all machine guards in their internal H&S audit, and included the Basic Equipment Checklist during the internal audit.

Adidas Group update Oct. 12, 2012: not 100% completed. To be verified in the next audit.

Adidas Group update May 23, 2012: ONGOING:

1. According to SEA investigation in early May, sewing machines are equipped with the pulley guards. Photo of an example sent to FLA for review. Randomly checked sewing machines were equipped with pulley guards. SEA to check the compressor in the next visit.

2. Furthermore, SEA has already requested the factory to further review and conduct an internal audit on this issue as on-going basis.

**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:** Based on the provided time records, the rest day was observed to not have been granted during the following times:

1. Approximately 5% of workers (bonding, QC, and embroidery) in the month of November 2011. In 1 instance at least 1 worker worked a maximum of 13 straight days.
2. Approximately 60% of workers (bonding, QC, sewing, and embroidery) in the month of October 2011, and there were 2 instances where workers worked a maximum of 13 straight days.
3. Approximately 50% of workers (bonding, QC, sewing, and embroidery) in the month of July 2011, and in 2 instances workers worked a maximum of 13 straight days.

Sources: document review, management and worker interviews

Legal reference: Omnibus Rules Implementing the Labor Code (1989), Book III Rule III, Sec. 2 regulates that all establishments and enterprises may operate or open for business on Sundays and holidays provided that the employees are given the weekly rest day and the benefits as provided in this Rule.

#### Plan Of Action:

1. While there is a factory policy on working hours indicating 60 hours of work as the maximum per week, Adidas also has a strict policy on the overtime limit. SEA reviewed the overall working hours in the past 12 months and also observed that the factory has been operating in excess of the limit, therefore SEA has recommended the factory to take the following steps:
  - A. Review the overtime approval system and ensure that there's a mechanism set up to prevent workers from working more than 60 hours per week.
  - B. In the case where workers are required to operate overtime on Sunday, there must be a rest day provided as required by the labor law.
  - C. Factory should appoint 1 dedicated staff to check the working hours on a regular basis as well as keep track of compensation of rest days for workers in case of Sunday work.
  - D. Set up an internal audit team to conduct a review of working hours per week.



E. The SEA requirement is to have the factory submit the working hour report to show the overtime performed during each month.

F. SEA has also informed the sourcing to be aware of the excessive overtime and ensure that this issue is taken into account for the order allocation.

**Deadline**

**Date:**

**Supplier**

**CAP:**

We shall strictly impose and monitor the use of their compensatory days off, if several straight worked days happen again in the future, by checking on their respective attendance.

**Supplier CAP**

**Date:**

**Action**

**Taken:**

Adidas Group update December 14, 2012:

A. The factory has assigned the compliance team to control overtime along with the payroll. Each month, the factory will conduct an internal audit on labor issues, which includes a working hour review.

B. SEA noted that there was 1 packing worker who was asked to come to work on Sunday May 20th. She was assigned to do a special project. It was noted that this worker signed off on the voluntary forms and was paid the Sunday overtime premium as required by law. Moreover, she was given 1 compensation day off on the following Monday.

C. Ms. Ame Faro, the compliance manager, has been appointed to lead the labor internal audit team and review the working hours every month. The team will randomly select entries from the attendance records and input the findings on the internal audit checklist.

D. Done, however, the working hours review is to be set up on a monthly basis, not on a weekly basis, due to the availability of the payroll staff, and to accommodate the internal audit process. Moreover, it is in line with the internal audit schedule of the compliance team.

E. Done. SEA is receiving the working hours report from the factory consistently (on the 10th of each month).

F. Sourcing team from Adidas Group has been informed about the monitoring of excessive working hours in this factory. Since May - December 2012, SEA found that the factory has been able to control the working hours so that they are within 60 hours per week.

Adidas Group May 2012 update: pending and to be verified in the next audit.

1a-f. From the factory visit in May, Adidas has identified this issue as well as discussed with the factory management and requested the factory to devise a proper mechanism to ensure that the factory provides rest day compensation for workers who work on their rest day. SEA to review the progress on this issue again in the next visit to review the mechanism, to see if there are further cases of improper compensation for rest day work.

**Plan** Yes  
**Complete:**

**Plan** 12/12/2012  
**Complete**  
**Date:**

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### **Working Hours/Overtime: Protected Workers (Women and Young Workers)**

HOW.4 The factory shall comply with all applicable laws governing work hours regulating or limiting the nature, frequency and volume of work performed by women or workers under the age of 18. (S)

#### **Noncompliance**

- Explanation:**
1. Factory's juvenile policy must be revised to conform with the local regulation, e.g. juvenile workers must not exceed 40 hours/week, may not be permitted to work OT, and are not permitted to work between 10pm to 6am as this is regarded as a night shift.
  2. Appoint an HR representative to monitor and review the working hours of the juvenile workers.
  3. HR and training manager to ensure the awareness of line leaders and prevent them from asking juvenile workers to work overtime.
  4. Internal audit team should conduct regular reviews to ensure that juvenile workers are not working overtime and not working in excess of the legal limit.

Sources: document review, management and worker interviews

Legal Reference: Department Order No. 65-04 (2004), Sec. 15(b) regulates that the following hours of work shall be observed for any child allowed to work under Republic Act No. 9231 and these Rules: (b) For a child 15 years of age but below 18, the hours of work shall not be more than 8 hours a day, and in no case beyond 40 hours a week. Hours of work Republic Act 9231 regulates that No child below fifteen (15) years of age shall be allowed to work between 8 o' clock in the evening and six o' clock in the morning of the following day and no child fifteen (15) years of age but below eighteen (18) shall be allowed to work between 10 o' clock in the evening and six o' clock in the morning of the following day.

**Plan Of Action:** Factory's juvenile policy must be revised to conform with the local regulation, e.g. no juvenile workers should exceed more than 40 hours a week and should not render overtime hours. They should not be permitted to work between 10pm to 6am as this is regarded as the night shift.

**Deadline Date:**

**Supplier CAP:** Juvenile policy was revised and is going to take effect January 1, 2012 in accordance with RA 9231.

**Supplier CAP Date:**

**Action Taken:** [Adidas Group update December 14, 2012](#): Through further verification with the 1 remaining juvenile worker and other types of workers, it was clearly indicated that the factory has set up a monitoring system to ensure that juvenile workers are not allowed to perform overtime and that they only work 40 hours per week, and no work on Saturday and Sunday. From the random review of working hours, SEA observed that for all the other workers (non-juvenile), when the worker is asked to work on the rest day, they will provide a compensation day off for workers. This was found to be the case on 1 Sunday for a packing worker.

[Adidas Group update, May 23, 2012](#): COMPLETED: 1. Based on worker interviews conducted between May 1st to 4th, 2012, it was indicated that juvenile workers do not have Saturday work and no overtime is permitted. From the randomly selected attendance records for juveniles, there is no indication of overtime work for this group of worker. This is in alignment with the new juvenile policy, dated December 28, 2012 that took effect January 1, 2012. On an on-going basis, the factory must ensure that there is a monitoring system in place. The management and HR manager also indicated that they are paying attention to ensure that the juveniles are not working overtime as described in their policy.

**Plan Complete:** Yes

**Plan Complete Date:** 12/12/2012

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### **Working Hours/Overtime: Overtime/Reduced Mandated Overtime**

HOW.8 The employer shall demonstrate a commitment to reduce overtime and to enact a voluntary overtime system, including for overtime mandated to meet extraordinary business circumstances. (P)

#### **Noncompliance**

**Explanation:** Based on the juvenile monthly meeting record date of November 25, 2011, it was reported that some line leaders would tell them (the juvenile workers) not to come back anymore after they ask permission to go home already, since it's time for them to go home.

Source: document review, worker interviews

Legal Reference: Department Order No. 65-04 (2004), Sec. 15(b) regulates that the following hours of work shall be observed for any child allowed to work under Republic Act No. 9231 and these Rules: (b) For a child 15 years of age but below 18, the hours of work shall not be more than eight hours a day, and in no case beyond 40 hours a week.

**Plan Of Action:** 1. Factory to revise the juvenile policy to include a regulation on working hours and to ensure that all line leaders understand the juvenile policy. A copy of verifiable documents must be presented to SEA as proof that an orientation was done.

**Deadline Date:**

**Action Taken:** [Adidas Group update Dec. 14, 2012:](#) SEA interviewed only 1 remaining juvenile worker and indicated that the worker has not encountered any verbal abuse. She indicated that she knows all the policies, like the 40-hour per week policy and the no overtime policy. They have received the workers handbook.

[Adidas Group update Oct. 12, 2012:](#) Workers interviewed indicated that no verbal harassment or abuse was inflicted upon juvenile workers and that they have been properly oriented to the new juvenile policy, including also non-harassment policy.



[Adidas Group update May 23, 2012](#): 1. This is related to the requirement for line leaders regarding verbal harassment and lack of understanding for juvenile workers. SEA has requested the HR manager to review and conduct a training for all the company line leaders to ensure that the policy of no overtime for juveniles is clearly enforced. Based on document review on site and a series of worker interviews from May 1 to 4, 2012, the revised juvenile policy has been implemented, understood and confirmed by workers interviewed off site and on site. SEA observed that the factory has strengthened the communication on juvenile employment to all the factory levels. Further verification will be made in the next visit to make sure there is no repetitive finding.

**Plan Complete:** Yes

**Plan Complete Date:** 12/12/2012

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