



COMPANY: **Pou Chen**  
COUNTRY: **China**  
ASSESSMENT DATE: **11/03/14**  
MONITOR: **FLA Assessor Team (China)**  
PRODUCTS: **Footwear**  
PROCESSES: **Full [= full package]**  
NUMBER OF WORKERS: **9623**  
NUMBER OF WORKERS INTERVIEWED:  
ASSESSMENT NUMBER: **AA0000000533**

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# 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 such 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.

**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.

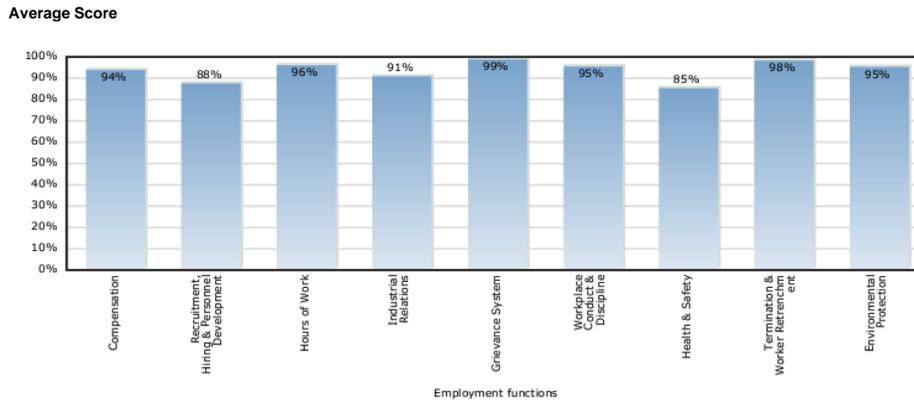
**Root causes**: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be 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.

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

# Factory Profile

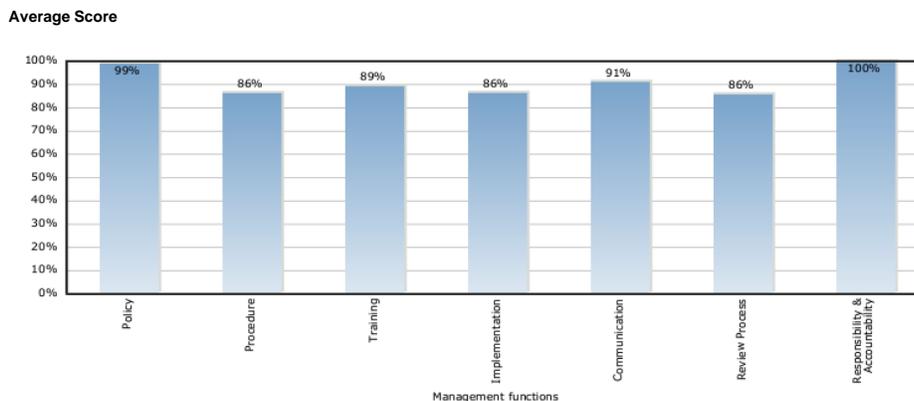
## Score by Employment Function

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 assessment conducted for FLA by independent, accredited assessors. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



## Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

Management Functions	Recruitment, Hiring & Personnel Development	Compensation	Hours of Work	Industrial Relations	Grievance System	Workplace Conduct & Discipline	Termination & Worker Retrenchment	Health & Safety	Environmental Protection
Policy	100%	100%	100%	100%	100%	100%	94.23%	100%	100%
Procedure	79.17%	100%	100%	0%	100%	100%	100%	79.69%	100%
Responsibility & Accountability	100%	100%	100%	100%	100%	100%	100%	100%	100%
Review Process	100%	100%	100%	100%	50%	50%	100%	100%	66.67%
Training	80.95%	100%	100%	100%	100%	100%	100%	83.12%	100%
Implementation	85.43%	86.48%	89.47%	76.67%	100%	83.33%	88.89%	85.1%	90.49%
Communication	100%	87.5%	70%	100%	100%	100%	100%	93.75%	75%

## Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element	Number of Violations	Violations
Compensation	3	General Compliance Compensation Workers Awareness and Understanding of Compensation Calculation Basis for Overtime Payments
Employment Relationship	7	General/Human Resource Management Systems Terms and Conditions/Communication Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Production and Incentive Schemes Industrial Relations Recruitment and Hiring/Employment Decisions Termination and Retrenchment/General Policies and Procedures
Forced Labor	2	Freedom in Employment Freedom of Movement/Workers Ability to Terminate
Freedom of Association and Collective Bargaining	6	Employer Interference Employer Interference/Constitution, Elections, Administration, Activities and Programs Employer Interference/Registration Employer Interference/Favoritism Employer Interference/Police and Military Forces Right to Freely Associate
Harassment and Abuse	4	General Compliance Harassment or Abuse Punishment of Abusive Supervisors/Managers/Workers Discipline/Monetary Fines and Penalties Discipline/Psychological Abuse
Hours of Work	2	Annual Leave Annual Leave/Wage Payments
Health, Safety and Environment	10	General Compliance Health, Safety, and Environment Ventilation/Electrical/Facility Installation and Maintenance Ergonomics Medical Facilities Drinking Water Permits and Certificates Evacuation Requirements and Procedure Safety Equipment and First Aid Training Personal Protective Equipment Chemical Management and Training
Non-Discrimination	2	General Compliance Nondiscrimination Recruitment and Employment Practices/Job Advertisements, Job Descriptions and Evaluation Policies

## Findings and Action Plans

## FINDING NO.1

### RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

1. The factory's employment handbook articles 3.1.3.6.7 and 3.3.3.1.2 stipulate that "the labor contract will be terminated if the factory finds the employee has been subject to "re-education through labor." This regulation was abolished by the central government in 2013. This provision poses a risk that employees are terminated without legal basis.
2. The number of disabled workers (0.95% of the workforce) is below the legal requirement (1.5% of the workforce). Additionally, the factory does not contribute to the Employment Security Fund in lieu of employing disabled workers, as is allowed under the local law.
3. There are repeated probation terms for workers returning to employment. According to applicable legal requirements, returning employees should not be subject to additional probation terms in the same workplace.
4. Although during the recruitment process workers are informed in writing that they would be exposed to occupational disease hazards, the factory does not explain the specific occupational hazards, which violates the legal requirement.

##### Local Law or Code Requirement

Resolution of Standing Committee Meeting of National People's Congress (NPC) on November 15, 2013; Regulations on the Employment of Persons with Disabilities, Articles 8 and 9; Law of Employment Contracts, Article 19; Law of the PRC on the Prevention and Control of Occupational Diseases, Article 34; FLA Workplace Code (Employment Relationship Benchmark ER.3.2; Nondiscrimination Benchmarks ND.1 and ND.2.1)

##### Root Causes

1. The factory staff that wrote the Employment Handbook was not informed about the recent legal change. The responsible staff at the HQ level was aware of the legal change, but did not communicate it to the factory as HQ was still reviewing it.
2. As the type and severity of disability is an important factor for deciding if a candidate is suitable for the workplace/task to which they will be assigned, the factory finds it difficult to recruit a sufficient number of eligible disabled workers.
3. In the interest of cost-savings and attracting business, the local government does not strictly implement the Regulations on the Employment of Persons with Disabilities.
4. The Human Resources staff does not thoroughly understand Article 19 of the Law of Employment Contracts.
5. The factory uses the uniform occupational health risks notification for workers in order to simplify the process.

### COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	11/29/14
<b>Progress update:</b>	06/30/15 : 1.1. Articles 3.1.3.6.7 and 3.3.3.1.2 are deleted.in the employment handbook . 1.2. Those updates/revisions of the employment handbook are announced and posted on the bulletin board, and related seminars, and training programs are conducted by HR to educate all supervisors and personnel assistants . 1.3. Work with the company's legal department to review related laws regularly and update the handbook if needed in a timely manner. 2.1. Positions/areas suitable for disabled workers are defined as below:: A. The deaf and mute: suitable for all common working positions B. The lower limbs disabled: suitable for working positions which don't require standing. C. The upper limbs disabled: will arrange suitable position according to the degree of their disability. 2.2. YS works closely with ShangGao Disabled Persons' Federation to promote recruiting efforts and job opportunities step by step to attain the recruitment goal of disabled workers. There are 99 disable workers in the factory currently, which make up 1% of the total factory workers (9856 people)." 3.1. Probation term is removed from Labor Contract for workers ever worked in YS for at least 2 months and returning for employment. 4.1. Update the employment contract/hazard notification and state the existing occupational hazards specifically. 5.1. Cooperate with company's legal department to review related laws update and revise the handbook regularly.
<b>Completion date:</b>	11/29/14

## FINDING NO.2

### COMPENSATION

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

1. Although the factory has made efforts to gradually improve the social insurance of coverage and contribution base, the factory is not yet fully compliant:
  - a) Basic Medical Insurance: 98.4% of workforce is not covered by basic medical insurance. Only supervisors and managers, making up 1.6 % of total workforce, have been covered since November 2013. Additionally, the contribution base for all the covered employees was lower than the workers' actual earnings.(Note: The factory provides hospitalization medical insurance for 98.4% of the employees.)
  - b) Basic Pension and Unemployment insurance: In the past year, the factory has provided basic pension and unemployment insurance to all employees. However, the contribution base is set at minimum standard, rather than workers' actual earnings. For example, during November and December 2013, 96% of the employees' actual earnings were higher than the minimum contribution standard (CNY 2685\*60%). Similarly in the first five months of 2014, 29% of the employees' actual earnings were higher than the minimum contribution standard (CNY 2123).  
(Note: Since June of 2014 factory has begun to pay the basic pension and unemployment insurance at workers' actual earnings.)
  - c) Maternity Insurance and Work-related Injury Insurance: The factory provides maternity insurance and work-related injury insurance for all employees; however, the contribution base is not aligned with the workers' actual earnings. For example, during the last two months of 2013, 15.5% of the employees' actual earnings were higher than the contribution base (CNY 2137). In the first five months of 2014, 7.1% of the employees' actual earnings were higher than the contribution base (CNY 2685). (Note: factory has paid the maternity insurance and work-related injury insurance at workers' actual earnings since June of 2014).
2. The factory did not pay into the Housing Provident Fund for any of the employees, as per local law during November 2013 to April 2014.  
(Note: Since May of 2014 the factory has begun to pay into the Housing Provident Fund for all employees taking employees' actual earnings into account.)

##### Local Law or Code Requirement

Social Insurance Law of PRC (2010), Article 23; Notice on Social Insurance Contribution Base of Yichun City (2013 & 2014), Article 2; Regulation on Jiangxi Province Housing Provident Fund Management, Articles 3, 11, and 12; FLA Workplace Code (Employment Relationship Benchmark ER.22.1; Compensation Benchmark C.1)

##### Root Causes

1. The employer considers the contributions to social insurance and Housing Provident Fund at full base financially burdensome.
2. Some workers prefer higher disposable income in the short-term and opt to contribute to social insurance at lower base.
3. Workers are confused about the social insurance system; many workers have contributed to "New Rural Co-operative Medical System," and they do not understand the difference between the basic medical insurance and "New Rural Co-operative Medical" insurance, which has been introduced by the government for suburban residential registered workers and does not require employer contribution.
4. Local government can advance their interests by using the cost-savings associated with local variances as incentives for attracting business, as a result, it has not been monitoring and strictly enforcing compliance.
5. The factory is gradually improving its social insurance coverage and contribution base; most of the issues were rectified after June 2014.

### COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	In Progress
<b>Planned completion date:</b>	07/01/15
<b>Progress update:</b>	06/30/15 : 1. Currently, the contribution base and the rates of the five insurances are 100% compliance with local government regulations. 2. Factory has started to draft the plan of switching

the current medical insurance to basic medical insurance as suggested. The estimated time to complete the switching is in the end of August '15. 3. The contribution base of pension / unemployment / maternity /work injury has been according to employees' actual wage since June, 2014. 4. Administration Center cross check social insurance payments every month to ensure they are in line with all legal requirements.

## FINDING NO.3

### COMPENSATION

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

1. The employer does not make every reasonable effort to that ensure workers understand their compensation, including fringe benefits (prenatal leave), incentives (full attendance bonus), and wage structure (particularly the “conversion overtime wage”).
2. The factory does not provide prenatal leave. According to employee interviews, pregnant employees were not aware that they are entitled to paid leave to take a prenatal health examination; instead they always take annual leave, or use weekends for prenatal examinations.
3. Previously, the full attendance bonus included overtime, and the factory revised the policy in May 2013 to not include overtime. However, the refresher communication on this revised policy was not effective, as a result, all of the employees still think the full attendance bonus includes overtime attendance.
4. Worker interviews revealed that the employees do not understand the wage structure. For example, most of interviewed employees did not understand the item called “conversion overtime wage” ( ).

##### Local Law or Code Requirement

Special Rules on the Labor Protection of Female Employees, Article 6; FLA Workplace Code (Employment Relationship Benchmarks ER.16.1 and ER.22.1; Compensation Benchmarks C.1 and C.17.1)

##### Root Causes

1. Management considers prenatal care leave disruptive to production.
2. Training on wage structures is overly general. Human Resources and management are sometimes unable to deliver training in an easily understandable manner.
3. In the worker interviews, many workers expressed that they care more about the total amount of compensation, rather than the details.

##### Recommendations for Immediate Action

1. Provide eligible workers with prenatal leave
2. Immediately communicate the prenatal leave regulation to workers, supervisors, and management.

### COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	05/30/15
<b>Progress update:</b>	07/01/15 : 1.1. The regulation of prenatal leave (includes 5 times of prenatal leave s, 0.5 day each time) has been included in the factory's vacation policy and implemented since Oct. 2014. If there is any additional prenatal checking required, workers can have it based on the suggestion from doctor. 1.2. Prenatal leave is paid as the maternity leave. It will not affect the full attendance bonus. 2.1. Prenatal leave regulation has been communicated to all employees on Oct 30, 2014. 3.1. Refresh training has been setup since October 2014. 3.2. Reinforce new workers orientation training, especially in prenatal leave regulations. 3.3. Factory has posted related fringe benefits in shopfloor bulletins as well as broadcast in all areas. 4.1. Factory has communicated with workers and supervisors on wage structure through factory meetings, ISO commissioner, new worker orientation and periodic training programs. 5.1. Setup seasonal worker survey and interview to understand workers' perception of factory fringe benefits and wage structure, and revise the training material

accordingly. 5.2. Setup the consultation hotline to answer workers' questions with regard to wage structure and prenatal leave in a timely manner.

**Completion date:** 05/30/15

## FINDING NO.4

### HOURS OF WORK

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

1. Production planning includes overtime; even though the overtime hours are within legal requirement and FLA Workplace code, this violates the FLA Workplace Code requirements on production planning.
2. Although factory's policies state that all the work and meetings should be within the established working hours, often times this policy is not adhered to. According to employee interviews, production records, and physical observation, some workers on the morning shift are required to work 10-15 minutes before their shift, and some supervisors require worker assemblies and conduct preparation meeting 10 minutes before the middle shift. These practices were most prevalent in Zone B (B4 and B5 buildings). This extra working time is not compensated.

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.24; Forced Labor Benchmark F.7.5; Compensation Benchmark C.7)

##### Root Causes

1. The factory has a system to track working hours; however, management does not see a problem with including overtime in its production planning as long as the working hours are within legal requirement and FLA benchmarks.
2. Some workers need to prepare chemicals and change filters in advance so that his/her co-workers can work with them afterwards. Since there are not many of these workers, this issue has been overlooked by management.
3. Some supervisors and team leaders think it is more efficient to have preparation meeting before the regular working hours.
4. Human Resources and senior management have not effectively communicated this Hours of Work policy to the production leaders, and internal monitoring has not been effective.

##### Recommendations for Immediate Action

1. Retroactively pay for the uncompensated working hours for workers who worked extra time over the past 12-month period.
2. Cease the practice of holding worker assemblies and preparation meetings before the start of the shift or compensate workers for participating in such meetings at the overtime rate.
3. Do not include overtime in production planning.

### COMPANY ACTION PLANS

1.

**Action plan status:** Completed

**Planned completion date:** 05/20/15

**Progress update:** 07/01/15 : 1.1. Currently, the company will ask for employees agreement before arranging production plan and overtime schedule for the month. Factory understands production planning should not include overtime automatically; the workers are fully consulted in advance in terms of voluntary overtime work, and with a written record added. In the future, the company will consider the practical production circumstances, to count the number of workers willing to work overtime in advance, and the number of overtime hours they are willing to work, and then add this amount of time to the production plan. In addition, the company will revise written policies, and provide relevant training to supervisors and workers responsible for production planning. 2.1. Strengthen the working hour policy by providing refresher training to supervisors and managers, especially ""worker assemblies"" and ""conduct preparation meeting"" before working time are strictly prohibited. 2.2. There were designated waiting areas in shopfloor for next shift workers. In order to eliminate the

misunderstanding, factory has canceled the waiting areas in shopfloor. 2.3. After checking all workers in B4 / B5 buildings, we found that there are two workers (one in morning shift, one in middle shift ) in B5 workshop, occasionally doing work preparation (cleaning the filters) before working hours. The accumulation of their excessive work time is less than 1 day, and we will make arrangement for them to rest for a day and pay their overtime pays in May." 3.1. Additional working hour has been setup for positions that need preparation works, which is compliance with the law for overtime pays and overtime rates. 4.1. Conduct training programs on working hour policy to all supervisors, team leaders and above level annually , and the signature records will be collected and kept by company. 4.2. Carry out spot-check and employees interviews by factory auditors randomly. 4.3. Review the performance of working hour control in management meeting. 5.1. Continue to strengthen internal oversight on working hour policy.

**Completion date:** 05/20/15

## FINDING NO.5

### TERMINATION AND RETRENCHMENT

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

1. The Employer does not have a written policy governing all aspects and modes of termination. For example, there is no complete retirement procedure that outlines the steps to manage the retirement process, even though the factory has had hundreds of employees who have reached or are approaching the retirement age during their tenure in the factory. This might deprive these workers of benefits they're eligible for upon retirement.
2. Workers are requested to sign the "Notification for Dismissing Labor Contract (I)" which indicates that workers, on their own initiative, terminated the employment relationship with the employer. All relevant interviewees said they did not sign this document of their own free will.

##### Local Law or Code Requirement

Labor Contract Law of PRC (2008), Article 44; the Regulations on Implementation of Labor Contract Law of PRC (2008), Article 21; FLA Workplace Code (Employment Relationship ER.32.1; Forced Labor Benchmark F.2)

##### Root Causes

1. The factory adopted instructions from headquarters when establishing retirement policies/procedures; however, retirement is not frequent in many of the other factories. The retirement procedures have not been modified to taken into consideration the situation in this factory.
2. The factory considers the "Notification for Dismissing Labor Contract (I)" a way to avoid some labor disputes.
3. The factory is trying to avoid potential costs by not coordinating with workers on the retirement process as it might, for example, reveal unpaid pension contributions by the employer.

##### Recommendations for Immediate Action

1. Stop the practice of requesting workers who are approaching retirement to sign the "Notification for Dismissing Labor Contract (I)."

### COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	11/05/14
<b>Progress update:</b>	07/01/15 : 1.1. Signing process of "Notification of Dismissing Labor Contract (I)" has been removed. 2.1. Revise the form of ""Notification of Retirement "" and put it into practice. 2.2. The retirement procedure for employees who reach the retirement age is as follows: a. Announce the name list of the ones who will reach the retirement age within 2 months, then evaluate and filter those who are eligible for re-employment. b. The result will be informed and confirmed through signing on the KPI

form. c. Workers can take "" Retirement Notification""to book an interview with factory counseling team one month before their retirement to calculate their annual leaves and finish them before the retirement date. d. Factory complete the employment process for workers who are eligible to return to work 1 month before their retirement. e. Workers complete the termination process on the retirement date. 2.3. Inform employees who reach the retiring age about their positions after retirement: After the assessment process (performance in the past 3 months and records of rewards and punishments in the past year), those qualifiers who are willing to work can return to work, and should be informed of the wages, rights, and benefits by the time they return. 2.4. Local Social Insurance Bureau does not allow factory to be the window of pension and retirement procedure for those who end the labor contract because of reaching the retirement age, only individuals can apply for their pension insurance. As a result, HR provides ""Guidelines for Pension Insurance Management"" for employees who reach their retirement age, to inform them the process of pension insurance application. (Including the different process of ones who reach or below the 15 years age limit, and how to transfer the Social Insurance status).

**Completion date:** 11/05/14

## FINDING NO.6

### INDUSTRIAL RELATIONS

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

1. Employee Handbook Article 10.2.5.26 stipulates that workers will be fired in the case of any involvement in strikes or work stoppage, although no workers have yet been fired on these grounds.
2. A trade union was established in 2005. Although there were around 408 union representatives on the list provided by the factory, there are neither written operational procedures on elections, nor any records on file that indicate that any elections have been held. Around 85% of interviewed workers were not aware of the existence of the trade union, and all of them expressed that they have never participated in the trade union election. The factory pays union dues on behalf of the workers.
3. The factory management filled all Union Committee member positions for the trade union.

##### Local Law or Code Requirement

FLA Workplace Code (Freedom of Association Benchmarks FOA.2, FOA.10, and FOA.11)

##### Root Causes

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 does stipulate that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.
2. Personnel who created the Employee Handbook lack knowledge of the International Labor Organization principles relating to workers' right to participate in strikes.
3. The factory management believes that management has the right to organize and operate the trade union, and it is a common practice in Chinese factories for management to dominate the trade union.

### COMPANY ACTION PLANS

1.

**Action plan status:** In Progress

**Planned**

**completion date:** 07/31/15

**date:**

**Progress update:** 07/01/15 : 1.1. Strike is removed from Article 10.2.5.26 of the employee handbook, and has been announced since November 17, 2014. Moreover, it was cross-checked by legal and human resources departments. 2.1. Current employee handbook has included the spirit and related content of FLA COC, and that all of the new employees will receive training on employee handbook. 3.1. Factory has the freedom of association policy in place. 3.2. Post and announce the policy in every unit. 3.3. Start from July 2015, union member will pay the Union fee. 4.1. The union has elections (as shown in the picture). And it's free of management interference. 4.2. All of the employees has taken training about the ""Responsibility and function of trade union""(as shown in the attendance sheet) and every one of them has a copy of the Collective Contract. 4.3. The employee representatives has participated in the union meetings. (as shown in the attendance sheet )

## FINDING NO.7

### GRIEVANCE SYSTEM

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

1. There is an inconsistency between the grievance procedure outlined in the Employee Handbook and the posted notice regarding the Grievance System. According to the Employee Handbook, workers can lodge grievances anonymously while the posted notice states that workers need to provide their names when lodging grievances. This inconsistency may discourage workers from using this channel; based on 30 randomly selected grievance records, only one grievance has been submitted through the suggestion box.
2. 50% of the complaints over the past year were related to supervisors' rude behavior, assessors also received the same complaints during worker interviews, which indicates that senior management has not effectively resolved this issue.
3. One interviewed worker reported that his concerns regarding the bonus calculation was not clearly addressed through various channels, such as his line supervisor, building manager, human resources department and Corporate Responsibility (CR) department, etc. When all the options for redress failed, he eventually resigned from the facility during the assessment, but has been employed by another production unit in the same compound.

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark, ER.1.3 and ER. 25.3)

##### Root Causes

1. Internal monitoring was not effective and the management overlooked the inconsistency in the posted grievance policy.
2. As a leading local employer, the factory does not see the need to improve the grievance system in order to attract workers.

### COMPANY ACTION PLANS

1.

**Action plan status:** Completed

**Planned completion date:** 11/26/14

**Progress update:** 07/01/15 : 1.1. After reviewed the grievance procedure in employment handbook and public notice, factory has removed the requirement of personal information from the grievance boxes to make two documents aligned. 2.1. Factory has conducted refresher training on grievance policies and procedure for workforce. 2.2. There are total 37 grievance boxes have been setup in each shopfloor as the anonymous reporting channel. 2.3. Provide refresher training for all supervisors on non-abusive behavior to workers, and strengthen the zero tolerance policy. 3.1. Factory has semi-annually worker survey in place to measure workers' general satisfaction of factory's grievance system. 3.2. Enhance grievance system by adding one more channel by Administration Center. If workers was unsatisfied with the current answer, they can elevate the question to AC. 4.1. Review grievance cases regularly in monthly supervisors meeting.

**Completion date:** 11/26/14

## FINDING NO.8

### WORKPLACE CONDUCT AND DISCIPLINE

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

1. According to document reviews, employee interviews, and factory practice, the factory uses monetary penalties as a form of workplace discipline. For example, in the employment contract (signed by retired workers, but not the current employees, although the rule applies to all employees), it clearly states that CNY 10 will be deducted for workers who receive a warning, CNY 30 for minor breach, and CNY 90 for severe breach.
2. According to employee interviews, the names of sanctioned workers are either posted in public, or announced by the supervisor/team leader at employee meetings. No such posts were observed during the assessment.
3. The factory does not have a written procedure to discipline supervisors/team leaders who engage in any physical, sexual, psychological, verbal violence, harassment, or abuse. According to grievance records, 50% of the complaints were regarding the supervisors' rude behavior. Around 15% of the interviewed employees claimed their team leaders have yelled at them without any disciplinary actions taken.

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1; Harassment or Abuse Benchmarks H/A.1, H/A.2, H/A.6, and H/A.11)

##### Root Causes

1. The factory is not well informed about FLA Workplace Code & Benchmarks regarding monetary penalties.
2. In the factory management's opinion, this kind of monetary penalty is more effective to ensure the employees obey workplace rules in a factory with a large number of employees.
3. The factory management thinks posting or announcing the names of sanctioned employees acts as a deterrent and warning for others. The practice is common in the industry.
4. The factory has some regulations regarding supervisors and management behaviors, which they think are sufficient to constrain supervisors without punishment.

##### Recommendations for Immediate Action

1. Remove regulations that impose monetary penalties as a form of workplace discipline, and stop the practice entirely.
2. Stop the practice of publicly posting or announcing the names of workers subject to disciplinary measures.

### COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	11/05/14
<b>Progress update:</b>	07/01/15 : 1.1. Monetary penalties are stopped and fully removed from workplace discipline. 1.2. Re-announce to all supervisors that publicity posting or announcing the names of workers subject to disciplinary measure are prohibited. 2.1. Current employee handbook has clearly defined the corresponding punishments against violence, harassment and other kinds of actions. (Articles in the employee handbook: Article 10.2.2.19 ""Workplace abuse, insult, slander""and Article 10.2.3.28""Workplace abuse, insult, slander. which causes significant effect"" ) 2.2. If there is any violation, disciplinary actions will be imposed.
<b>Completion date:</b>	11/05/14

## FINDING NO.9

## ENVIRONMENTAL PROTECTION

### FINDING TYPE: Immediate Action Required

#### Finding Explanation

1. The factory was unable to provide the official records for disposal of hazardous wastes since June of 2014 for the assessors' review, and only provided collecting receipts issued by this waste handler were maintained on-site. Consequently, the factory was not able to prove that the hazardous waste generated over the past five months was disposed of in line with legal requirements.

#### Local Law or Code Requirement

Prevention and Control Law of Environmental Pollution, Solid Waste, Article 59; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1 and HSE.4)

#### Root Causes

1. The contracted hazardous waste handler was originally an authorized handler. Recently, it was given a warning by the local authority, and the local authority suspended the company's waste handling business.
2. The factory has only one contracted hazardous waste handler, and does not have an emergency mechanism to seek a substitute under special circumstances.

#### Recommendations for Immediate Action

1. Substitute an authorized handler to dispose of the hazardous waste, and maintain official disposal records on-site.

## COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	In Progress
<b>Planned completion date:</b>	06/30/15
<b>Progress update:</b>	07/01/15 : 1. Hazardous wastes are temporarily stored in factory warehouse. 2. Contracted with Shanggao Yongjian Renewable Energy Limited and keep discussing with the Jiangxi Chuangho Chongshen Environmental Technology Ltd. about the hazardous wastes treatment. 3. Keep seeking the potential legal contractors to deal with hazardous wastes according to the recommended list announced by the Provincial Environmental Protection Bureau.

## FINDING NO.10

### HEALTH AND SAFETY

### FINDING TYPE: Immediate Action Required

#### Finding Explanation

1. There is no sprinkler system installed in the warehouse areas of Buildings A1, A2, A3, A6, A7, and A8. These warehouse areas were newly built this year due to production needs. Any restructuring of production buildings needs to be re-evaluated in terms of fire prevention design. In this case, the newly opened warehouse areas have the acreage (1,000m<sup>2</sup>) that legally requires the installation of a sprinkler system.  
(Note: At the time of assessment, the factory's top management had approved a budget and construction plan to install the sprinkle system. The estimated completion date was the end of December of 2014).
2. There is a childcare facility located in the factory campus, which mainly serves the factory employees; around 90% of the children in the childcare facility are the employees' kids. However, this facility does not meet fire safety requirements:
  - a) One exit is locked in the childcare facility during operation due to security reasons leaving only one emergency exit available for evacuation.
  - b) There are no fire extinguishers, fire alarms, or emergency lights installed in the childcare facility.
3. The factory does not currently have a mechanism to include all of the employees in fire drills. For example, the factory has three shifts for different production departments; over the past year, the fire drills were usually taken in the morning and did

not cover the workers in the middle and night shift. (Middle shift: 14:00-22:00 and night shift: 22:00-6:00). This poses the risk that some workers are not familiar with the evacuation process in case of emergencies.

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

Code of Design on Building Fire Protection and Prevention, GB50016, Articles 1.0.2, 5.3.2 and 8.5.1 Section 2; Provisions on the Administration of Fire Control Safety of State Organs, Organizations, Enterprises and Institutions, Article 40; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1 and HSE.5.2)

### **Root Causes**

1. Due to production needs, the warehouses were opened up quickly, while the design and installation of the sprinkle system takes more time.
2. A contractor operates the childcare facility, and the factory thought it was the contractor's obligation to fulfill the fire safety requirements.
3. Factories traditionally think that only two fire drills per year are needed to fulfill the legal requirement, without taking multiple shifts into consideration.
4. The childcare and fire drill issues were never raised in previous external and internal audits.

### **Recommendations for Immediate Action**

1. Install proper fire safety equipment, including fire extinguishers, fire alarms, and emergency lights in the childcare area, and ensure that both of the exits in the facility are un-locked.
2. Conduct fire drills that include all employees and shifts.

## **COMPANY ACTION PLANS**

1.

**Action plan status:** Completed

**Planned completion date:** 03/30/15

**Progress update:** 07/01/15 : 1.1. Proper fire safety equipment such as fire extinguishers and emergency lights are installed according to the regulations in childcare facility. 1.2. Remove the lock on the emergency exits in childcare facility, and replace them with electric access control system that opens automatically when pressing the switch or emergency situations such as power failure. 1.3. Scheduling plans for evacuation drills, conduct regular evacuation drills annually. 1.4. Complete the installation of sprinkler system in A1, A2, A3, A6, A7, and A8 buildings. 2.1. Increase the number of drills for middle shift and night shift to let all workers of each shift participate in evacuation drills. 2.2. Increase nighttime drills in the dormitory. 3.1. Completed the installation of sprinkler system in A1, A2, A3, A6, A7, and A8 buildings. 3.2. Include childcare facility in the fire safety check, and monitor accordingly by factory ESH team. 3.3. Cooperate with local fire department regularly , especially on the fire safety training for factory workers.

**Completion date:** 03/30/15

## **FINDING NO.11**

### **HEALTH AND SAFETY**

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

#### **Finding Explanation**

1. The local county-level Center for Disease Control (CDC) is contracted by the factory to provide occupational health examinations; however, the CDC does not have the corresponding qualification.
2. Currently, the factory only provides on-job and pre-departure "occupational health examinations" for eligible workers who are exposed to hazards such as chemicals, high noise level, radiation, etc., however, there are no pre-job health examinations. This practice does not fulfill the legal regulations that workers working with hazards should be provided with pre-job, on-the-job, and pre-departure occupational health examinations at employer's cost. (Note: Factory started to implement pre-job health examinations in November of 2014)

3. Even though the factory has serious occupational hazards, it has not had an occupational health technical service institution to evaluate the current occupational hazards at least once every three years as per legal requirements, which creates a risk of unidentified occupational hazards.
4. In Building A7, there is a workstation for spraying paint, but the chemical hazard and concentration test did not cover this site, making it impossible to tell whether the indoor concentration meets the legal limit. Additionally, personal protective equipment (goggles) is not provided for these four workers.

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

Measures for the Supervision and Administration of Employers' Occupational Health Surveillance, Article 9; Provisions on the Supervision and Administration of Occupational Health at Work Sites 2012, Articles 16, 20, and 30; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.7, and HSE.18.2)

### **Root Causes**

1. The local county-level CDC informed the factory it has been subcontracted by the city-level CDC to do the occupational health examinations; the factory did not screen the relevant agreement and formal procedure. Additionally, using the local CDC is easier and more efficient.
2. The factory was recently made aware of the requirement for evaluating the current occupational hazards at least once every three years due to a customer audit. Previously, they had adopted a less comprehensive requirement to conduct testing of factors of occupational hazards (as opposed to comprehensive evaluation) at least once per year, while in order to fulfill the legal requirement both yearly testing and three year evaluation must be carried out.
3. The workstation for spraying paint is new, and the factory plans to include it in the next year's test.

### **Recommendations for Immediate Action**

1. Seek a fully authorized medical institution to implement the occupational health examination program.
2. Implement pre-job health examinations for eligible workers.
3. Provide personal protective equipment (goggles) for the four operators in the paint spraying positions in building A7.

## **COMPANY ACTION PLANS**

1.
 

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	05/30/15
<b>Progress update:</b>	07/01/15 : 1.1. Factory has contracted with Yichun Shinjian Hospital to perform health examination program. 2.1. Factory has started conducting occupational health exams for new workers on specific positions within 1 month after induction since Oct. 2014. 2.2. Due to the uncertainty or position change of the new recruited workers, occupational health checks for new workers on specific positions would be done within 1 week. 2.3. The new measure of occupational health exam for specific new workers has been put into practice since 18th, Nov., 2014. 3.1. Paint spraying positions in A7 has been added into 2015 Occupational Hazards Evaluation. 3.2. Goggles for workers in spraying paint workstations have been provided. 4.1. Factory has found a qualified evaluation institution (Jiangxi Yichun Longxiang Occupational Health Services Ltd. ) in Feb. 2015. 4.2. The qualified institution (Jiangxi Yichun Longxiang Occupational Health Services Ltd.) has started collecting preliminary data on March. 4.3. Occupational safety control assessment will be done in the end of May.
<b>Completion date:</b>	05/30/15

## **FINDING NO.12**

### **HEALTH AND SAFETY**

**FINDING TYPE:** Immediate Action Required

#### **Finding Explanation**

1. Workers are allowed to drink water at their workstations where they are handling chemicals, such as glue. However, the

- material safety data sheets' (MSDS) require that workers wash their hands before drinking. While this is not practical, the current practice bears a risk that drinking water is contaminated.
- In the chemical mixing workshops in buildings A3 and A8, exhaust hoods are installed over the mixing tanks, but they are only operated during mixing. Due to the lack of continuous ventilation, the workers in the workshop are exposed to chemicals in the workshop from the stored chemical containers.
  - Due to a design deficiency, the exhaust hoods installed at the paint spraying workstations in buildings B4 and B5 are not able to effectively exhaust the paints/inks; smog and paint lingers in the operation areas.
  - Four types of machine oil tanks (180kg each) are stored in the molding workshop where soldering, drilling, polishing, electric spark machine tools, etc., are operated; this poses a fire risk. (Note: on the 3<sup>rd</sup> day of the assessment, these four tanks were moved to the chemical storage warehouse.)

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

FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.9.1, HSE.13, and HSE.23.1.2)

### **Root Causes**

- The washbasins and drinking water dispensers are installed at the edges of production buildings, and the distance is relatively far from the workstation, as the building is large. This makes it inconvenient for workers to wash hands before drinking; as a result, workers prefer to bring the water glass to their workstation and drink it there.
- The chemical mixing workshop is set up in the middle of the building; therefore, the factory believes that additional ventilation would contaminate the indoor air quality of other areas of the building.
- The design of the exhaust hoods is copied from sister factories of the parent company, without taking actual context into consideration. All the exhaust hoods are installed in the middle of workshop, which leads to a long exhaust stream and inefficiency.
- The molding workshop is supervised by a separate (Jiayuan) plant and Health, Safety & Environment (HSE) affairs for the separate plant are not centrally managed by the factory. In most cases, the HSE team of the factory verbally communicates HSE requirements to the separate plant without on-site verification.

### **Recommendations for Immediate Action**

- Install additional ventilation facilities, and utilize the existing exhaust hood to continuously exhaust the indoor air in the chemical mixing workshops outside, without contaminating the other indoor areas in the A3 and A8 buildings.
- Re-design and rebuild the exhaust facilities and hoods installed at the paint spraying paint workstations, and make sure the facilities effectively exhaust the paints/inks.

## **COMPANY ACTION PLANS**

- |                                 |   |
|---------------------------------|---|
| <b>Action plan status:</b>      | Completed   |
| <b>Planned completion date:</b> | 03/21/15  |
| <b>Progress update:</b>         | 07/01/15 : 1.1. Setup cabinets at each side of the oven between the first and second cementing section in each assembly line to provide a designated place for drinking water and put their cups, and post "Please wash your hands before drinking" signs. 2.1. Explosion-proof ventilation fans have been installed in A3 and A8 building to increase the ventilation. 3.1. Replace the ventilation motors in B4 Building 3.2. Replace the wind chassis fans and fixed-load fans in B5 Building. 3.3. Regular wind speed detection on ventilation/exhaust equipment to ensure their effectiveness. 3.4. Centralized HSE management system has been setup to cover all plants, including mold shop and rubber shop. |
| <b>Completion date:</b>         | 03/21/15  |

## **FINDING NO.13**

### **HEALTH AND SAFETY**

**FINDING TYPE:** Immediate Action Required

### **Finding Explanation**

1. In the Injection Phylon (IP) workshop, workers need to spray chemical detergent to clean the mold during the process of producing insoles; however, there is no eyewash facility installed at this area.
2. In the separate Jiayuan plant, where outsoles are produced, the workers need to lift 50kg iron molds; however, they are not provided with personal protective equipment (safety boots) for protection in case of dropping.

**Local Law or Code Requirement**

Code of Practice for Selection of PPE GB11651-2008, Article 6.1 Sheet 3, A01; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.6.1 and HSE.7)

**Root Causes**

1. The factory's internal audit tool is not complete or comprehensive enough. For example, there are only 20 items in a written checklist for the "Quality, Environmental, Health & Safety (H&S) Management System," and there is no detailed checklist for H&S implementation.
2. The factory does not centrally manage HSE affairs for the separate plant. In most cases, the factory's HSE team verbally communicates HSE requirements to the separate plant, without on-site verification.

**Recommendations for Immediate Action**

1. Install an eyewash facility in the "IP" workshop.
2. Provide workers who lift molds with personal protective equipment (safety boots).

**COMPANY ACTION PLANS**

1.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	12/27/14
<b>Progress update:</b>	07/01/15 : 1.1. Eyewash facility in the IP workstation has been installed. 2.1. Only the mold administrators(with personal safety boots) can move the molds, other workers are prohibited . 2.2. Add PPE wearing standard into training programs and conduct the daily auditing for Jiayuan plant (rubber shop). 3.1 Centralized HSE management system has been setup to cover all plants, including mold shop and rubber shop.
<b>Completion date:</b>	12/27/14

**FINDING NO.14**

**HEALTH AND SAFETY**

**FINDING TYPE: Sustainable Improvement Required**

**Finding Explanation**

1. Around 80% of chairs provided for workers are not equipped with backrests to minimize bodily strain.
2. At many production areas, such as the A, B, and Screen Printing buildings, the illumination levels ranged from 150 to 200lux according to assessor's random testing, which is below the legal requirement of 300 lux.

**Local Law or Code Requirement**

Standard for Lighting Design of Buildings GB50034-2004, Sheet 5.3.1; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.13 and HSE.17)

**Root Causes**

1. Management has basic awareness of the benefits of ergonomic improvements, and has started to provide the chairs with backrests at a few workstations, but full-scale ergonomic improvements imply additional costs.

2. The factory has conducted internal tests for illumination levels. Based on interviews with responsible factory staff, the testing method was not scientific. The testing instrument was too close to the lights instead of at horizontal level of the operation as legally instructed, which had led to the inaccurate test results.

## COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	In Progress
<b>Planned completion date:</b>	06/30/15
<b>Progress update:</b>	07/01/15 : 1. Factory IKT team (Innovation and kaizen team) is in charge of ergonomics program, and will start budgeting in the end of 2015 accordingly to gradually use ergonomical designed chairs. 2. Gradually replace the traditional fluorescent tubes with LED tubes in the whole factory. 3. Setup the illumination test method base on GB/T 18204.21-2000 and conduct training to responsible staff (factory HS team). 4. Illumination testing will be performed every season to ensure factory meets the legal requirement.

## FINDING NO.15

### COMPENSATION

**FINDING TYPE:** Notable Feature

#### Finding Explanation

1. The factory provides a High Temperature Allowance (CNY 240) to all the employees from June to September regardless of if the working temperature is lower than the regulated limit (33°C inside and 35°C outside).

## FINDING NO.16

### WORKER INTEGRATION (MACRO)

**FINDING TYPE:** Sustainable Improvement Required

#### Finding Explanation

1. The worker integration component is missing from all Employment Functions. The factory has established and implemented procedures to receive supervisors' input/feedback on the creation, implementation, and revision of its policies and procedures but does not including regular workforce integration. Therefore, workers are neither systematically integrated, nor consulted in the decision-making processes.

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.3 and ER.25.2)

#### Root Causes

1. Management thinks supervisors can provide more practical recommendations for creation, implementation, and revision of its policies and procedure, and lacks appreciation for the benefits of regular workers' input.
2. Management finds it easier to only include supervisors than to elect worker representatives to performing management interviews.

## COMPANY ACTION PLANS

- 1.

**Action plan status:** Completed

**Planned completion date:** 06/01/15

**Progress update:** 07/01/15 : 1. Factory has regular face to face forums/suggestion boxes for workers to provide input to management. 2. Factory has established regular procedure to review policies, employee survey results, grievance and management performance with union and worker representatives. 3. Factory ISO team is assigned to take charge of the implementation of the workers' integration procedure. 4. New procedure to cover regular workforce with regard to creation, implementation and revision of company policies has been setup and was kicked off on 2015.6.1.

**Completion date:** 06/01/15