



FAIR LABOR
ASSOCIATION®

INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANY: **ABC GRUPPEN AB**
COUNTRY: **China**
ASSESSMENT DATE: **12/03/13**
MONITOR: **Social Compliance Service Asia Ltd. (SCSA)**
PRODUCTS: **Apparel**
PROCESSES: **Cut, Sew, Screen Printing/Printing**
NUMBER OF WORKERS: **200**
NUMBER OF WORKERS INTERVIEWED:
ASSESSMENT NUMBER: **AA0000000327**

FLA Comments

This report was submitted to FLA and the FLA-affiliated company by the assessor. Despite deadline reminders and extensions for submission of a corrective action plan, FLA has not received a plan to address the risks and noncompliances raised in the report. Therefore, the report is posted in its current state and will be updated once a corrective action plan has been submitted to and reviewed by FLA.

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Improving Workers' Lives Worldwide

Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

Glossary

De minimis: A de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of 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.

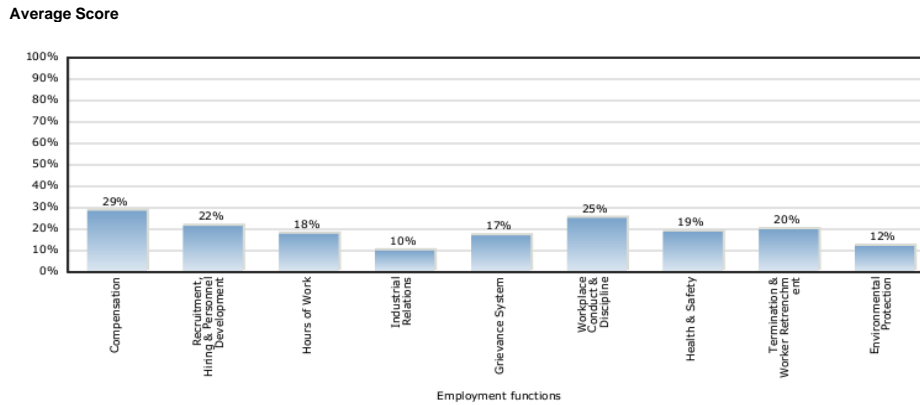
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that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

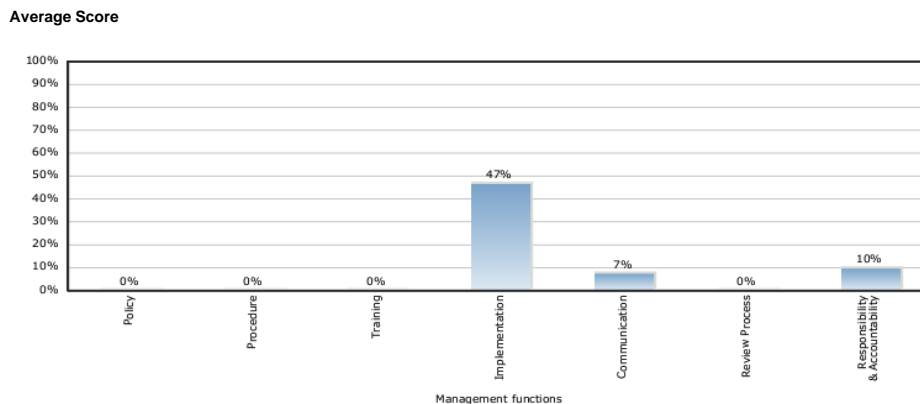
Score by Employment Function

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	0%	0%	0%	0%	0%	0%	0%	0%	0%
Procedure	0%	0%	0%	0%	0%	0%	0%	0%	0%
Responsibility & Accountability	20%	20%	14.29%	0%	20%	20%	20%	0%	0%
Review Process	0%	0%	0%	0%	0%	0%	0%	0%	0%
Training	0%	0%	0%	0%	0%	0%	0%	0%	0%
Implementation	50.8%	60.29%	37.5%	83.33%	60%	86.67%	77.78%	33.91%	35.77%
Communication	0%	0%	15%	0%	0%	0%	25%	0%	0%

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	8	General Compliance Compensation Compensation Receipt Record Maintenance Workers Awareness and Understanding of Compensation Compensation Disputes Minimum Wage Accurate Calculation, Recording, and Payment of Wages Calculation Basis for Overtime Payments
Employment Relationship	14	General/Human Resource Management Systems Terms and Conditions/New Employee Orientation Terms and Conditions/Communication Terms and Conditions/Supervisor Training General/Documentation and Inspection Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Time Recording System Administration of Hours/Production and Incentive Schemes Industrial Relations Work Rules and Discipline Skills Development/Promotion, Demotion and Job Reassignment Health, Safety, and Environmental Management System/Policies and Procedures Termination and Retrenchment/General Policies and Procedures Recruitment and Hiring/Proof of Age Documentation
Hours of Work	5	General Compliance Hours of Work Public Holidays Annual Leave Rest Day
Health, Safety and Environment	16	Maintenance of Reasonable Levels of Staff Material Safety Data Sheets/Workers Access and Awareness Ventilation/Electrical/Facility Installation and Maintenance Machinery Safety, Maintenance and Workers Training Ergonomics Sanitation in Workplace Facilities Document Maintenance/Workers Accessibility and Awareness Toilets Food Preparation Dormitory Facilities Notification and Record Maintenance Permits and Certificates Evacuation Requirements and Procedure Safety Equipment and First Aid Training Personal Protective Equipment Use of Personal Protective Equipment Chemical Management and Training

Findings and Action Plans

FINDING NO.1

FACTORY HAS NOT DEVELOPED THE POLICIES AND PROCEDURES REGARDING ALL EMPLOYMENT FUNCTIONS.

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory has not developed policies and procedures for any of the Employment Functions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.23, ER.25, ER.27, ER.30, ER.31 and ER.32; Health, Safety and Environment Benchmark HSE.5)

Root Causes

1. The factory had a relatively basic set up and system. Management lacked awareness of the importance of having policies and procedures covering all Employment Functions.

2. There is no budget set aside for developing policies and procedures.
3. Management was not aware that having policies and procedures was a requirement of FLA Workplace Code and Benchmarks as they were not informed by the FLA-affiliated company.

FINDING NO.2

NO TRAINING AND ON-GOING TRAINING FOR WORKERS ACROSS DIFFERENT EMPLOYMENT FUNCTIONS (MANAGEMENT FUNCTION)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Workers do not receive any training on the Employment Functions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.15, and ER.17; Health, Safety and Environment Benchmarks HSE.6 and HSE.8)

Root Causes

1. Factory has not developed policies and procedures for Employment Functions.
2. Management lacks awareness of the importance and benefits of effective training.
3. Management lacks an understanding of the requirements of the FLA Workplace Code and Benchmarks.
4. There is no budget set aside for training.

FINDING NO.3

LACK OF COMMUNICATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. For almost all Employment Functions, the factory does not communicate its practices to the general workforce. The factory does not make all relevant HSE documents available to workers.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.16, ER.30, and ER.32; Compensation Benchmarks C.17 and C.19; Health, Safety and Environment Benchmark HSE.2)

Root Causes

1. The factory has not developed policies and procedures for Employment Functions.
2. Management was not aware of the importance and benefits of communicating with workers.
3. Management lacks an understanding of the requirements of FLA Workplace Code.
4. The factory considers top-down communication without workers' feedback to be a more effective way of management.

Recommendations for Immediate Action

1. Management shall allocate the necessary resources and commit to remediating this situation.

FINDING NO.4

NO PERIODIC REVIEW ACROSS ALL MANAGEMENT FUNCTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not conduct periodic reviews of its policies and procedures for different Employment Functions, e.g. the H&S program.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1 and ER.31)

Root Causes

1. Factory has not developed policies and procedures for Employment Functions.
2. Management was not aware of the importance and benefits of periodic reviews of policy and procedures.
3. Management lacks an understanding of the requirements of FLA Workplace Code and Benchmarks.

FINDING NO.5

FACTORY HAS NOT MAINTAINED COPIES OF I.D CARD FOR ALL WORKERS TO AVOID RECRUITING CHILD LABOR

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory has not maintained copies of ID cards to verify workers' birthdates.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.4)

Root Causes

1. Factory has not developed a system for either age verification or the maintenance of copies of workers' ID.
2. Management lacks an understanding of the requirements of: a) FLA Workplace Code and Benchmarks and local law.

FINDING NO.6

NO ATTENDANCE AND PAYROLL RECORDS

FINDING TYPE: Immediate Action Required

Finding Explanation

1. 29 employees (5 staff and 24 production workers) were paid on a piece-rate basis. Finishing section workers (e.g. pressing, inspection, cutting workers) were paid on a fixed monthly rate. None of these workers received additional compensation for overtime.
2. Normal working hours are 8 – 10 hours a day Monday to Saturday and 8 hours on Sunday, with only 2 rest days per month.
3. Based on the estimated working hours, workers were not guaranteed minimum wage. For example, Worker A was only paid RMB8.6 per hour in October 2013; this is below the local minimum wage of RMB8.9. Since factory management did not keep time records, actual working hours and wages could not be accurately verified during the assessment.
4. The factory did not provide legally mandated paid leave, including statutory holiday, annual leave, sick leave, maternity leave and marriage leave.
5. The factory did not register workers with the 5 types of legally mandated social insurance.
6. Payroll was not maintained at the facility. The factory did not maintain documents to manage and track the administration of wages (e.g. pay slips, payroll, and bank transfers).

Local Law or Code Requirement

Root Causes

1. The factory has not developed policy and procedures on compensation.
2. Management lacks an understanding of the requirements of: a) FLA Workplace Code and Benchmarks and b) local law.
3. There is lack of commitment from senior management to ensure compliance with legal requirements.

Recommendations for Immediate Action

1. Factory should comply with all legally mandated wages and benefits.

FINDING NO.7

NO TIME RECORDING SYSTEM, EXCESSIVE WORKING HOURS

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory did not have a system to record workers' working hours. Time records were not maintained.
2. Weekly working hours exceeded the limit of 60 hours. Most workers work between 60 – 68 hours per week on a regular basis.
3. Workers were not guaranteed 1 day of rest in every 7-day period. Workers' normal working hours are 8 – 10 hours a day Monday to Saturday and 8 hours on Sunday, with only 2 rest days per month.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.23 and ER.24; Hours of Work Benchmarks HOW.1, HOW.2, and HOW.6)

Root Causes

1. The factory has not developed policies and procedures on working hours.
2. Management lacks an understanding of the requirements of: a) FLA Workplace Conduct and Benchmarks and b) local law.
3. Inadequate preparation for dealing with production orders means staffing levels may be out of sync with production volumes, leading to excessive hours of work;
4. There are no regular analyses of hours of work with a view towards progressively reducing excessive hours of work.

Recommendations for Immediate Action

1. Establish a tracking system to record all working hours and attendance;
2. Ensure that working hours do not exceed the limits of: a) FLA Workplace Code and Benchmarks and b) local law;
3. Ensure that workers receive at least 24-hours of consecutive rest in every 7-day period.

FINDING NO.8

IMPROPER CHEMICALS STORAGE

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There was no secondary container for chemicals.
2. No material safety data sheets (MSDS) posted and no labels for all cleaning agents were kept in the spot removal section.
3. Kerosene stored in the sewing workshop for the steam machine was not properly stored and was missing anti-leakage equipment.
4. The factory did not provide regular occupational health checks to employees in the paint spraying workshop who are in contact with hazardous materials.

Local Law or Code Requirement

Regulation for Chemical Usage Safety in Work Place, Article 26; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.9 and HSE.10)

Root Causes

1. There was no chemical management policy and procedure in place.
2. Management lack awareness on the importance of chemical safety.
3. A risk analysis on chemical storage and management has not been conducted.
4. Workers in charge of handling/storing chemicals have not been trained.

Recommendations for Immediate Action

1. Install secondary containment in the areas where chemicals are being used/stored;
2. Post MSDS and label chemicals accordingly;
3. Relocate kerosene to a proper location;
4. Ensure that regular occupational health checks are provided to all employees handling hazardous materials.

FINDING NO.9

SEWING MACHINES WITHOUT PROPER PULLEY GUARD (WORKERS PROTECTION)

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Some sewing machines in the sewing workshop were not installed with needle guards.
2. Several workers were not using machine guards and personal protective equipment (PPE) (namely eye shields) while operating high-speed sewing machines.
3. The sewing machines' transmission belts were not equipped with pulley guards.
4. Eye-washing facilities were not available in the spot cleaning area.

Local Law or Code Requirement

Code of Design of Manufacturing Equipment Safety and Hygiene, Article 6.1.6; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.7 and HSE.14)

Root Causes

1. Workers and mechanics lack awareness on the importance and benefits of machine guards.
2. There is no effective system to ensure that all sewing machines are properly guarded.

Recommendations for Immediate Action

1. Carry out inspections on all sewing machines to ensure that guards are installed where needed;
2. Provide an eye-washing facility in the spot cleaning area.

FINDING NO.10

IMPROPER FIRE SAFETY PRACTICE (MAINTENANCE SAFETY)

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Electrical circuits in the sewing workshop and dormitory were exposed and lacked insulation.
2. There were no warning signs about electrical safety.
3. There was no certified electrician in the facility.

Local Law or Code Requirement

Root Causes

1. Management lack awareness of the safety requirements under the prevailing legislation and the FLA Workplace Code and Benchmarks.
2. Workers do not receive training on electrical and maintenance safety.

Recommendations for Immediate Action

1. Fix the electrical circuits;
2. Ensure that electrical maintenance is done by a certified electrician.

FINDING NO.11

IMPROPER FIRE AND EMERGENCY IMPLEMENTATION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There was no emergency light or exit sign at 1 out of 2 exits in the sewing workshop.
2. No emergency evacuation plan was posted in the sewing workshop.
3. Some fire extinguishers in the workshop were on the ground instead of mounted on the wall.
4. The evacuation passage in the cutting workshop was partially blocked by production materials.
5. The factory did not have a fire alarm or emergency evacuation system.
6. Management was unable to provide evidence of the factory's fire inspection for review.
7. Fire drills have not been conducted since the opening of the factory and dormitory.

Local Law or Code Requirement

Design Standard for Emplacement of Fire Extinguishers in Buildings, Article 5.3; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.4, HSE.5, and HSE.6)

Root Causes

1. Management is not aware of fire safety requirements under the prevailing legislation or FLA Workplace Code and Benchmarks.
2. There was no fire and emergency policy and procedure in place.
3. Management and workers did not have training on fire safety and emergency evacuation.
4. There was no effective and consistent monitoring system to implement the proper firefighting guidelines.
5. There was a lack of coordination and effective communication between different areas and departments of the factory.

Recommendations for Immediate Action

1. Install the emergency light and exit sign in the sewing workshop;
2. Post an evacuation plan in the sewing workshop;
3. Mount the fire extinguishers on the wall;
4. Ensure all evacuation passageways and emergency exits are free from obstruction;
5. Install an emergency alarm system;
6. Obtain the fire acceptance inspection of the workshop;
7. Conduct fire drills in the workshop for all workers 2 times per year as per legal requirements; conduct fire drills in the dormitory for all workers at least 1 time per year as per legal requirements.

FINDING NO.12

NO FIRST AIDER AND FIRST AID KIT AVAILABLE, NO HEALTH CERTIFICATES FOR CANTEEN STAFFS, POOR DORMITORY CONDITION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There were no certified first aiders or first aid kits available in the workshops.
2. Management had not obtained the catering license for canteen employees.
3. The factory could not provide assessors the health certificate for the canteen staff.
4. The factory did not track all work-related injuries, fatalities, accidents, and incidents.
5. The workers' dormitory, including the bathrooms and toilets, was in poor and unsanitary condition.

Local Law or Code Requirement

Factory Safety and Health Rules, Article 31; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.3, HSE.6, HSE.19, HSE.20, HSE.22, and HSE.25)

Root Causes

1. Factory management lacks awareness of the local legal requirements on first aid.
2. Factory has yet to develop related policy and procedures.

Recommendations for Immediate Action

1. Factory to install first aid kits with sufficient supplies in all production areas and in accordance with the nature of production risks in those areas;
2. Ensure that there is a sufficient number of workers trained in first aid.

FINDING NO.13

COMPENSATION

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation

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

Local Law or Code Requirement

FLA Workplace Code (Compensation Benchmark C.1.3)

Root Causes

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

FINDING NO.14

INDUSTRIAL RELATIONS AND FREEDOM OF ASSOCIATION (WORKERS' PARTICIPATION AND INTEGRATION)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Factory management did not have a dialogue mechanism with workers and no other parallel means to enable workers to bargain collectively in the factory.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.25; Freedom of Association Benchmark FOA.16)

Root Causes

1. Factory has not developed policies and procedures for freedom of association.
2. Management lacks an understanding of the requirements of FLA Workplace Code and Benchmarks.
3. **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 International Labor Organization (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.

FINDING NO.15

NO RELATED PERMITS AND REPORTS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory could not provide the Environmental Impact Assessment report and other environmental protection related documents for review.

Local Law or Code Requirement

Law of the People's Republic of China on Appraising of Environment Impacts, Article 16;
FLA Workplace Code (Health, Safety and Environment Benchmark HSE.4)

Root Causes

1. Factory management lacks awareness of the local legal requirements related to EIA.
2. Factory lacks awareness of FLA Workplace Code and Benchmarks.