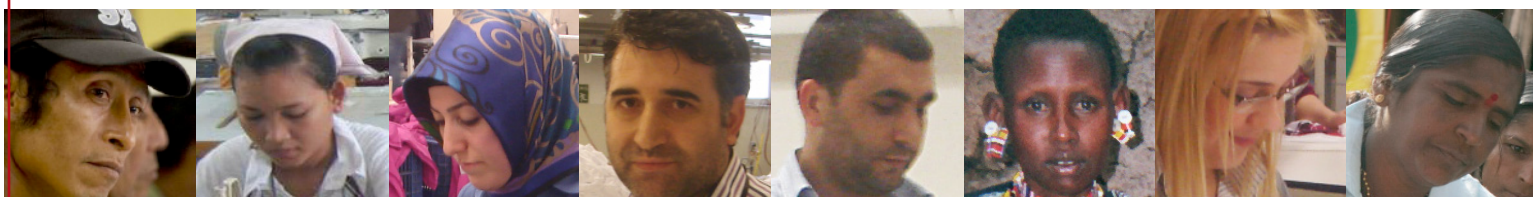


# FAIR LABOR ASSOCIATION



## Protecting Workers' Rights Worldwide

2010 ANNUAL REPORT JANUARY 1, 2010–DECEMBER 31, 2010



FAIR LABOR  
ASSOCIATION™

[www.fairlabor.org](http://www.fairlabor.org)

June 2011

## BOARD OF DIRECTORS 2010

The Fair Labor Association's Board of Directors includes an independent Chair and six representatives each from our three constituent groups: companies, NGOs, and colleges and universities.

Business Caucus	NGO Caucus	University Caucus
Corinne Adam Gildan Inc.	Marsha Dickson Educators for Socially Responsible Apparel Business	Karen Daubert Washington University in St. Louis
Marcela Manubens Phillips-Van Heusen Corp.	Linda Golodner National Consumers League	Robert K. Durkee, Acting Chair Princeton University
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Gregg Nebel adidas-Group	James Silk Orville H. Schell, Jr. Center for International Human Rights, Yale Law School	Michael S. Low University of Notre Dame
Vivienne Riggio (until August 2010) Asics	Karen Tramontano Global Fairness Initiative	Maureen Riedel Pennsylvania State University
Nicole Tillman Outdoor Cap	Lynda Yanz Maquila Solidarity Network	Craig Westemeier University of Texas at Austin

FLA extends its thanks to our Board members for their dedicated service to the organization and its mission.



NAME: SEDA CALISKAN  
JOB: LINE WORKER  
NUMBER OF YEARS WORKING IN FACTORY: 2

"To me, good working conditions mean having freedom at work. I have decided to attend night high school, and the management agrees that I should not work overtime anymore. In factories where there is too much pressure, workers may have psychological problems. But here, we have worker representatives who keep us informed and help us communicate with management. For instance, I informed them that I didn't like the food and now the representatives and canteen staff are consulting about the lunch menu. I like the friendly atmosphere in the factory."

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## MESSAGE FROM THE PRESIDENT

In 2010, the international labor community was stunned by the Foxconn suicides and unsettled by the Honda strike in China. These events, while troubling, were not entirely surprising; the era of an endless stream of docile workers willing to labor for low wages had been coming to an end for some time. The suicides and strikes were but two of the most disturbing signs of underlying turmoil. Despite these ongoing catastrophes in the labor market, the global economy has begun its slow recovery from the financial crisis. And while full recovery may be possible, I am convinced that it will not happen without making decent working conditions and access to rights a reality for workers across the globe. Business leaders must recognize that it will be impossible to return to the market conditions that prevailed before the crises, where workers had no voice, like those at Foxconn and Honda.

While the once silent workers are now speaking louder than ever through demonstrations and strikes, many employers seem to be deaf to the workers' grievances. Although authorities in some countries have responded to the labor abuses and unrest by strengthening the laws to protect workers, these positive and necessary actions have been undermined by weak and inconsistent enforcement and by the lack of human resource management capacity in companies and the factories that supply them. Human resource management is still a young discipline in several countries, including China and Vietnam, as evidenced by the grossly inadequate response to labor market

signals and poor handling of workers' grievances.

It may well be that one of the hangovers of the command economies of China and Vietnam is that employers expect government to run the labor market and do not see human resource management as an instrument for greater competitiveness at the firm level. But the reality is that treating workers well is not only the right thing to do, it is also an investment in a company's future. At FLA, among other tools, we have developed a human resource management self-assessment for companies and a range of capacity building materials they can use to fill the gaps identified by the self-assessment. By applying an understanding of regional and global trends in labor rights and compliance, FLA staff is able to work with the companies to develop lasting solutions. FLA brings companies, universities and NGOs together to develop sustainable change that is founded in respect for workers' rights.

Using a highly collaborative approach that convenes multiple stakeholders, FLA has impacted the lives of an estimated 4.6 million workers this past year. The efforts of FLA staff and independent monitors in the field have led to better working conditions in factories—from better water quality to opportunities for organizing and collective bargaining.

FLA's multi-stakeholder approach will be even more essential as the global supply chain continues its metamorphosis. Companies will no longer be able to gain competitive



advantage by finding yet another low-cost sourcing base. They must construct supply chains based on their ability to produce flexibly and quickly without compromising quality or labor standards, and can rely on the support of FLA and its NGO and university partners to chart a sustainable path.

AURET VAN HEERDEN  
PRESIDENT AND CEO

## THE FAIR WAGE YEAR: DEVELOPING THE FAIR WAGE APPROACH

BY DANIEL VAUGHAN-WHITEHEAD, CO-CHAIR OF THE FAIR WAGE NETWORK; PROFESSOR AT SCIENCES-PO, PARIS

There is no doubt that 2010 will be remembered as an important year for wage developments along the supply chain. A number of international campaigns, mostly focusing on the living wage, helped to put the question of wage-level sustainability back on enterprises' agenda. After years of development, an initiative also emerged to help enterprises address the issue in a sustainable, effective and mutually-beneficial way. This initiative—called the Fair Wage approach—is aimed precisely at helping enterprises identify wage issues in their supply chains and support the design and implementation of tangible solutions.

To date, the attention paid to wage issues has been focused on whether employers comply with the legal minimum wage or overtime payments in operating countries. But wage fairness goes much

further than that. In fact, even if a factory pays the minimum wage, there can still be wage inequality and disparity or alienating pay systems. The strength of the Fair Wage approach lies in its multidimensional nature; in other words, it focuses on a series of interrelated variables in order to capture the full “wage story” in each enterprise and better grasp the reality and complexity of the wage-setting process.

I developed the Fair Wage approach to ensure that it reflects the interests of workers and can be applied globally. The Fair Labor Association is implementing the approach on a large scale, which represents a decisive move that should help all enterprises to progress rapidly in this rather complex area.

Development of the Fair Wage approach began in 2009, when it was integrated into FLA's annual auditing process. This allowed us to collect information and

data on almost all fair wage dimensions at hundreds of suppliers in Asia, South America and Europe. This confirmed the depth of the wage problem. According to the 2009 data, fake records on wages were found at 40 percent of suppliers; 46 percent reported having problems paying overtime; and nearly 30 percent had problems ensuring minimum wage compliance. Nearly 50 percent of suppliers were not using wage grids to link wage-setting to skills, and 25 percent had not adjusted wages upwards for inflation. Not surprisingly, the supply chain was characterized in 2010 by a series of social conflicts and strikes that undermined the previous stability of the production process, and also affected the relationship between suppliers and brands.

During the testing phase of the Fair Wage self-assessments, several brands completed a questionnaire





GLOBAL FAIRNESS INITIATIVE

Vaughan-Whitehead developed the Fair Wage approach to ensure that it reflects the interests of workers and can be applied globally.

complemented by a series of interviews with the workers. This exercise was carried out for PUMA, among other brands.

While the pilot phase confirmed the strength of the approach, it also highlighted the difficulties in changing wage practices of suppliers without more brands following the same approach. In a move typical of FLA, affiliates have agreed to examine the global issue of fair wages and the possible benefits of wage assessments. This will allow us to complete an even more thorough assessment of wage issues by examining practices of suppliers and brands on common ground.

As important as self-assessments are to this process, they should not be considered the final destination. Rather, this is the initial stage of a long-term process, which will allow brands to deliver what workers, consumers, NGOs and the general public expect from them: concrete remedial measures to improve wage practices in the field; assurance, together with suppliers, of decent living standards for workers; and respect for all legislation on the minimum wage and payments for hours worked. Indeed, the Fair Wage

approach will address fair wage levels, pay systems and adjustments, but it will also encourage and support the ongoing social dialogue with regard to wages.

If enterprises ever doubted the important benefits of fair wages, they became enlightened in 2010. They are recognizing that competition based solely on cheap labor is not sustainable—not only in our current deteriorating social climate, but also in terms of quality and productivity. In fact, this past year the Fair Wage Network was created ([www.fair-wage.com](http://www.fair-wage.com)), to bring stakeholders together to exchange ideas and best practices. Recognition and initiating action on wage issues will likely strengthen the stability of the production process and profitability in the long-run—a powerful incentive for businesses to participate.

I am confident that the Fair Wage approach and Fair Wage Network will lead to the creation of individual road maps for enterprises, and lead to improvements in wage practices that will benefit factory workers everywhere. The next year will be decisive, and I look forward to continuing to work with FLA and its stakeholders toward improvements in wage practices in the field.

# WHY FLA'S MULTI-STAKEHOLDER APPROACH WORKS

## COMPANIES, UNIVERSITIES & NGOs—WORKING TOGETHER, HAVING AN IMPACT

The Fair Labor Association's multi-stakeholder approach brings together NGOs, universities and companies to help them recognize and embrace their role in protecting workers' rights. This system—reflected in FLA's governance structure of equal representation on its Board of Directors for companies, NGOs and universities—holds all constituents accountable to each other. Since 1999, FLA has worked with representatives from these groups to create a safe environment for collaboration.

Today, more than 10 years since its inception, FLA is having a noticeable impact in factories throughout the world and, more importantly, in workers' lives. Three groups—unlikely collaborators—have proven their ability to work together under the FLA umbrella where their interests intersect. It may not be a conventional approach, but it works. FLA made an impact this past year by:

- **Conducting 149 unannounced factory visits in 21 countries.** Through these unannounced independent external monitoring audits of factories used by affiliated companies, FLA verifies companies' internal monitoring efforts and ensures that the FLA Workplace Code of Conduct is being enforced. [Read more on page 16.](#)

### 2010 FLA Factory Audits and Workers Impacted

Number of Factories Audited	149
Number of Factories Audited (including audits in shared facilities)	162
Estimated Number of Workers in Factories that Received FLA Audits in 2010	127,450
Total Number of Factories Used by FLA Affiliates	4,703
Estimated Number of Workers Impacted by FLA programs	4,651,658

- **Leading discussions on wage issues in the global supply chain.**

In October 2010, FLA hosted a stakeholder forum in Hong Kong, which brought together academics, practitioners, and representatives of international organizations, companies, trade unions, and monitoring organizations to discuss recent wage developments and address wage issues. [Read more on page 17.](#)

- **Assisting in the resolution of third-party complaints and other compliance issues.** FLA successfully resolved a Third Party Complaint and conducted an investigation regarding unauthorized subcontracting. [Read more on page 14.](#)

- **Evolving its methodology and expanding into other industries, such as agriculture.** FLA continued its work with companies, NGOs and universities to further develop and refine its methodology. The evolving system will utilize a unique worker lifecycle approach that looks at how a factory organizes and implements key functions affecting workers, such as hiring, training, setting wages and work hours, and terminating employment. [Read more on page 23.](#)

In 2010, there were 35 leading brands affiliated with FLA as Participating Companies and 16 Participating Suppliers. Affiliates that join FLA at this high commitment level agree to comply with ten obligations, which include submitting their entire supply chain to the FLA independent external monitoring process. In 2010, American Eagle Outfitters, Estate Europe AB, prAna, Sanata Holdings, and s. Oliver joined as Participating Companies, and Dongguan Luen Thai, Ebru Tekstil Nakis, Hey Tekstil Sanayi ve Ticaret A.S., and Hop Lun (Hong Kong) Ltd. joined as Participating Suppliers. Other companies participate in FLA as college and university licensees, registering in Category B, C or D groups depending on their size.

# SUSTAINABLE COMPLIANCE: AN EVOLVING METHODOLOGY

## FROM AUDITS TO LASTING, SYSTEMIC IMPROVEMENTS

**B**rand-name companies sourcing products from externally owned factories are under ever-increasing pressure to improve working conditions in those factories. This has historically been done through social compliance audits, which identify specific violations and fix them. Not surprisingly, however, some of the same violations are rediscovered during future audits. Recurring violations and the lack of long-term change at some facilities have resulted in declining trust between buyers and their suppliers, and between brands and their consumers. It is a broken system that doesn't work for the companies or factories and—most importantly—puts workers at a higher risk of exposure to ongoing threats to their health, safety and dignity.

FLA strives to drive lasting change throughout the global supply chain. By applying an understanding of regional

and global trends in labor rights and compliance, FLA staff is able to weave in local realities to develop lasting solutions. FLA brings factory managers, companies, and NGOs together to develop sustainable change founded in respect for workers' rights. FLA uses knowledge and expertise gained through monitoring and assessments to develop special projects that target persistent regional or sector-specific compliance violations.

Monitoring is, of course, one element of FLA's approach. However, FLA's methodology continues to evolve in order to deliver real solutions to problems and to protect workers in both the short- and long-term. In 2005, FLA began offering tools to factories to help them assess their compliance capacity and fill compliance gaps; address root causes of noncompliance; and report on ongoing progress. These tools have allowed factories to manage labor compliance on a self-sustaining basis. Factories have worked in collaboration with affiliated companies and FLA to

take increasing responsibility for the progress and sustainability of their labor compliance programs.

In 2010, FLA continued working with companies, NGOs and universities to further develop and refine its methodology. The evolving system will utilize a unique worker life-cycle approach that looks at how a factory organizes and implements key functions affecting workers, such as hiring, training, setting wages and work hours, and terminating employment. When assessors identify a management systems gap, they are able to relate it to a possible violation. These violations are often directly connected to the absence of an appropriate management policy or a failure to implement a policy properly. FLA will continue building on this approach, creating more tools and resources for its affiliates. Key features will be rolled out over the next two years.



NAME: PINAR SEN  
JOB: SEWING LINE WORKER  
NUMBER OF YEARS WORKING IN FACTORY: 7

“ Good working conditions build worker-management trust. Because I trust my manager and the owner of the factory, I am happy to come to work every day. Social compliance is very important. We have a worker representative system and—as a result of appropriate communication—we received a prayer room four years ago. There is no pressure at work. Nobody is allowed to curse or shout, and everyone has to respect each other—I like that the most. ”



## MY FAIR LABOR ASSOCIATION: HOW FLA'S APPROACH MAKES A DIFFERENCE



GLOBAL FAIRNESS INITIATIVE

" The collaborative model that FLA has built is uniquely effective at both holding stakeholders accountable, and fostering stronger cooperation between buyers, worker groups and organizations like mine. I genuinely feel that our work through FLA is making a real difference towards improving conditions for workers around the globe."

—KAREN TRAMONTANO, GLOBAL FAIRNESS INITIATIVE

" The University of Notre Dame has high expectations regarding the level of corporate social responsibility commitment demonstrated by our licensees. FLA provides training and educational opportunities for licensees while simultaneously providing the University with feedback regarding the licensees' progress in meeting company obligations. Notre Dame uses this information when evaluating prospective licensees as well as reviewing licensee requests for contract renewals."

—MICHAEL S. LOW, UNIVERSITY OF NOTRE DAME

" Nike has been evolving its mindset and its field operations away from a compliance auditing model towards a coaching model for factory partners focusing on continuing improvement in sustainability (lean, green, equitable and empowered). We are excited to be partnering with FLA in this process, and are looking forward to continued partnership with FLA in the development of industry-wide tools to build sustainable supply chains in the footwear and apparel industry."

—AMANDA TUCKER, NIKE

" FLA has drawn on their archives of thousands of independent external monitoring visits to develop and sponsor activities that directly confront chronic noncompliance issues in global workplaces. These innovative activities are changing the compliance landscape and providing solutions for fair wages, more effective worker-management communication mechanisms, and monitoring standardization using a methodology that focuses on employment lifecycle benchmarks."

—GREGG NEBEL, ADIDAS-GROUP

" Esquel, like most suppliers, is regularly exposed to new government regulations and customer requirements/ standards. After a review of several multi-stakeholder initiatives, we decided to become an FLA Participating Supplier because FLA has taken quite a number of steps to give suppliers a seat at the table with the brands, retailers and NGOs. We also believe we can have open and honest discussions about improving working conditions and promoting fair labor throughout the global supply chain, along with the practical realities of the complex business environment in which we work. Being part of FLA has also helped Esquel strengthen its internal monitoring system, which supports our continuous drive for better working conditions all around."

—TAMMY RODRIGUEZ, ESQUEL GROUP

## SUPPLIER OVERVIEW

In 2010, FLA-affiliated companies reported that they sourced from 4,703 factories, located in 73 countries. The largest concentration of factories supplying FLA companies in 2010 was in China, where 1,792 factories or 38.1% of the factories were located.

An estimated 4.6 million workers were employed by facilities supplying FLA affiliates in 2010. As a group, the top ten locations accounted for over 87% of total employment in factories supplying FLA companies. China also accounted for the largest number of workers in factories supplying FLA affiliates, with an estimated 1.8 million workers.<sup>1</sup>

1. In some instances, employment levels are estimated since employment information was not available for each factory. In such cases, missing data were extrapolated from factories in that country for which data was reported.

### 2010 Top Ten Countries Hosting Factories Supplying FLA Companies\*

Country	Number of Factories	Percent of Total
China	1,792	38.10%
USA	366	7.78%
Vietnam	323	6.87%
Turkey	286	6.08%
India	247	5.25%
Indonesia	238	5.06%
Thailand	160	3.40%
Bangladesh	153	3.25%
Mexico	78	1.66%
Cambodia	75	1.59%
<b>TOP TEN</b>	<b>3,178</b>	<b>79.04%</b>
<b>Rest of the world</b>	<b>1,525</b>	<b>20.96%</b>
<b>Total</b>	<b>4,703</b>	<b>100%</b>

\*Participating Companies, Participating Suppliers, and Category B Licensees

### 2010 Top Ten Countries with the Largest Workforce in Factories Supplying FLA Companies (in thousands)\*

Country	Estimated Number of Workers	Percent of Total
China	1,815	39.0%
Vietnam	739	15.9%
Indonesia	525	11.3%
Bangladesh	238	5.1%
India	200	4.3%
Thailand	173	3.7%
Cambodia	137	2.9%
Sri Lanka	93	2.0%
Honduras	81	1.7%
Turkey	80	1.7%
<b>TOP TEN</b>	<b>4,081</b>	<b>87.7%</b>
<b>Rest of the world</b>	<b>571</b>	<b>12.3%</b>
<b>Total</b>	<b>4,652</b>	<b>100</b>

\*Participating Companies, Participating Suppliers, and Category B Licensees

### Distribution of Suppliers by FLA Region (percent of suppliers)

Region	2006	2007	2008	2009	2010
Americas	19.1	16.0	16.7	17.2	16.6
EMEA	11.2	9.9	8.3	13.1	10.3
South Asia	7.2	8.3	9.9	10.8	11.6
East Asia	45.3	48.0	45.8	41.3	42.3
Southeast Asia	17.2	17.8	19.4	17.6	19.2

## FLA UNIVERSITY AFFILIATES: A CATALYST FOR CHANGE



UNIVERSITY OF DELAWARE



UNIVERSITY OF NOTRE DAME

**N**early 200 universities in the United States and Canada are affiliates of FLA. For colleges and universities whose students are both consumers and—in many cases—social justice advocates, it is a core value to ensure that workers' rights are respected in factories that manufacture collegiate products. Universities play a crucial role as thought leaders, helping to bring attention to workers' rights and to move the dial forward in improving working conditions in factories around the globe.

FLA university affiliates weigh their licensing decisions carefully and take steps to ensure that their licensees—companies producing apparel and other products bearing the universities' logos—recognize and contribute to the fulfillment of the university's commitment to workers' rights. FLA supports university affiliates in holding their licensees accountable for enforcing the FLA Workplace Code of Conduct in the factories that supply these products.

FLA staff conducted licensee visits in 2010 to enhance capacity building and training—reviewing compliance programs, providing resources and support, and conducting due diligence activities. FLA also continued integrating Category C licensees into the Enhanced Licensee Program.

To ensure continuous improvement of working conditions and help licensees move toward sustainable compliance, FLA offered in-person and web-based trainings, tools and resources throughout the year. These efforts confirmed licensee compliance and verified that the Workplace Code of Conduct was being upheld.

University affiliates play an active role in shaping FLA programs. With more than 3,000 collegiate licensees now registered with FLA, university affiliates significantly expand the organization's scope and impact throughout the world. [Learn more about Category B, C and D licensees at www.fairlabor.org.](http://www.fairlabor.org)

With more than 3,000 collegiate licensees now registered with FLA, university affiliates significantly expand the organization's scope and impact throughout the world.

## EXPANDING FLA'S REACH THROUGH INNOVATIVE SOLUTIONS

**F**LA develops special projects that complement existing programs and improve workers' lives. Through its work in the field and by engaging a variety of stakeholders in an open and honest dialogue, FLA identifies areas needing special attention and works with multiple stakeholders on innovative solutions to systemic issues at the industry or regional level.

### Mapping Supply Chains for Better Cotton

Globalization has led to the development of supply chains that span multiple countries and have distinctive and wide-ranging economic, political, social, labor and environmental standards. This poses a unique challenge to companies, producers and consumers trying to trace the origin of products to ensure the sustainability of supply chains and to monitor working conditions throughout. This challenge is especially prominent in the apparel industry, where some companies

struggle to identify whether the cotton they use in production embodies human rights violations or threatens labor and environmental standards.

Working toward a solution to this problem, FLA launched its Cotton Project and conducted a pilot exercise to transparently trace cotton along an entire supply chain of apparel producers to identify risks in the chain. Based on the findings, FLA then developed a Product Tracking Tool that companies may use to trace products and proactively identify risks. The tool, tested throughout the supply chains of cotton, leather and synthetics in India, allows companies to trace the product all the way back to its origin at the time of design conceptualization. FLA assisted in the adoption of the tool, which will help companies take preventative measures and improve compliance and sustainability.

### Achieving Sustainable Compliance in Bangladesh

Since its inception more than two years ago, the Promotion of Responsible Representation for Workers and Employers (PREPARE) project in Bangladesh has improved the efficacy of worker representation in three factories by providing a platform for labor-management dialogue; establishing a system of communication, consultation, and negotiation; providing capacity training to worker representatives and factory management on their roles and responsibilities; and promoting a sustainable training model that ensures that all workers and supervisors in the factory receive regular training on local labor laws. PREPARE entered its final stage in 2010, with Independent External Assessments (IEA) being conducted at all three factories. Project participants advised on next steps, which will include preparation of IEA reports and the development of capacity building training modules such as Worker Integration and Dialogue. Final reports and training materials will be available in 2011.



NAME: ERCAN ISIK  
JOB: PACKAGING LINE WORKER, AND WORKER REPRESENTATIVE  
NUMBER OF YEARS WORKING AT FACTORY: 2.5

"The most important things to me are harmony with my co-workers and the respectful approach of my managers. To me, good working conditions mean having appropriate working hours, steady transportation and meals at the workplace. I have been in this sector for twenty years, and this is the best factory ever because the workers are valued and treated well due to social compliance."

## Ethical Fashion in Kenya and Uganda

The International Trade Center's (ITC) Ethical Fashion Program supports the development of marginalized communities of women in Kenya and Uganda—mostly groups of micro-producers based in poor rural and urban settings. By enabling international distributors and fashion houses to source fashion and lifestyle products from these communities, ITC has created an innovative yet complex supply chain. This is where FLA comes in, offering expertise in monitoring labor standards throughout a supply chain which includes informal workshops, communities and home-based work.

FLA and ITC are developing a methodology to measure the impact of the Ethical Fashion Program on the capabilities, livelihood and well-being of the workers involved in the program.

One innovative element of this process, photo elicitation, helped illustrate the day-to-day lives of the workers, painting a more complete picture of the program's impact on workers' lives. Photo elicitation (see below) is an explorative approach among a small sample of workers to discover what a typical workday looks like; how workers view their lives, their work, and their community; what is most important to them; and how the Ethical Fashion Program is embedded into their daily routines. As the workers are provided with disposable cameras to capture images from their own lives, this method offers an unfiltered perspective that is essential to the program's long-term success. Initial research has been completed, and FLA will continue working with ITC to develop its methodology and ensure it is consistent with FLA standards and the Workplace Code of Conduct.

One innovative element of the research process, photo elicitation, helped illustrate the day-to-day lives of the workers.



Photo elicitation offers an unfiltered glimpse into the lives of working women in Kenya and Uganda.

## ACHIEVING RESOLUTIONS THROUGH FLA

Unannounced external monitoring in factories around the world helps to highlight violations in factories, but FLA Accredited Monitors cannot be everywhere at once. That is why FLA relies on workers, companies, NGOs or any other stakeholder to file complaints about persistent factory issues through its Third Party Complaint process. In 2010, FLA successfully resolved a Third Party Complaint and conducted an investigation regarding unauthorized subcontracting.

### Chi Fung S.A de C.V

Several workers at the Chi Fung factory in San Salvador, El Salvador, filed a complaint of alleged labor violations including forced labor and harassment or abuse. One of the factory's buyers, adidas-Group, therefore commissioned an investigation which confirmed a number of the allegations, including:

- Mandatory overtime work;
- Verbal harassment of workers by supervisory staff;
- Unkempt bathrooms, insufficient supplies of toilet paper and soap, and numerous other health and safety violations throughout the factory; and
- Coaching of workers by supervisors prior to audits by the brands.

Based on the findings, adidas and other brands worked with Chi Fung management to develop a joint remediation plan to address the noncompliances. FLA met with stakeholders in San Salvador to review the remediation plan and provide oversight during its implementation.

### Shanghai Wande Sporting Goods Company

In the fall of 2009, three FLA Participating Companies—Nike, New Balance and PUMA—requested that FLA conduct an assessment of Shanghai Wande Sporting Goods Company

(Wande), which supplies soccer and volley balls to a dozen sports equipment brands from the United States, Europe and Japan. The companies were especially concerned about whether subcontracting activities in Wande's supply chain might give rise to the use of home workers, underage workers, or even prison labor in the production of footballs.

FLA assembled an Assessment Team consisting of independent monitors from three FLA-accredited firms in China. Prior to making unannounced visits to the facilities, the Assessment Team consulted with local civil society organizations and conducted research on football production in the region to learn about: 1) the existence of industry-wide subcontracting and home work; and 2) the possibility of unauthorized or hidden subcontracting, home workers, child labor, prison labor, and production of counterfeited goods.

The Assessment Team found that subcontracting in the ball manufacturing industry is common



NAME: SABAN BAKACAK  
JOB: PACKAGING LINE WORKER  
NUMBER OF YEARS WORKING AT FACTORY: 9

“ Good working conditions mean having peace of mind at the workplace. As long as the payments are on time and the overtime is appropriate, I want to work for more years in the same factory. Social compliance ensures that overtime is voluntary in our factory and there is no pressure.”

in China, and that ball factories in the Shanghai area frequently subcontract orders to small workshops as a way to fulfill large orders and mitigate resource constraints. FLA recommended that the brands enhance their ability to detect unauthorized subcontracting in their supply chains; establish proper systems and policies regarding labor compliance by subcontractors and conduct assessments on a regular basis to identify risks in subcontracted factories; set up remediation programs to support contractors in addressing noncompliance issues at subcontracted facilities; and further investigate possible unauthorized subcontracting with Wande.

## **ASSESSMENT, CAPACITY BUILDING AND TRAINING**

### **Strengthening Workers' Voices through Increased Participation**

In August 2010, FLA piloted its new standardized focus group discussions approach to better integrate workers' perspectives into assessment activities. These discussions typically involve six to ten workers in a relaxed environment, which encourages workers to express themselves openly and discuss sensitive issues candidly. The pilot discussions were held in three Chinese factories and focused on working hours, providing workers' perspectives on overtime and wages—insights that are often difficult to obtain through typical assessment methods.

During the discussions, workers expressed that they would not want to work overtime if their monthly salary reached RMB 1600 (approximately USD 246<sup>1</sup>) and that they experience negative impacts on their health and social

lives from long working hours over an extended period of time. They asked for a maximum of 10 working hours per day; frequent and reliable breaks; and some guaranteed days of normal working hours and rest.

In addition to focus group discussions, FLA increased worker participation through its training module in China and Bangladesh this year. The Worker Participation training module—which consists of three training sessions over a 3-6 month period—examines existing dialogue and communications systems and helps worker representatives and management understand how to better communicate with each other to resolve conflicts. Throughout this process, workers and management apply lessons learned during trainings and submit monthly progress reports to demonstrate progress.

Information gathered from the factories in progress reports this year revealed that workers experienced greater freedom to make suggestions and express their opinions, and were more aware of their rights at the workplace. Workers also indicated that communications channels were better maintained and that they had input regarding work shift changes and policy decisions. Management indicated that the trainings resulted in improved communications skills and that problems were resolved more quickly. The progress reports also indicated that some unfairness and dissatisfaction still existed, and workers complained that in some cases, issues took too long to resolve and work was poorly organized. This input will help FLA further refine its training programs and identify areas for improvement within the factories.

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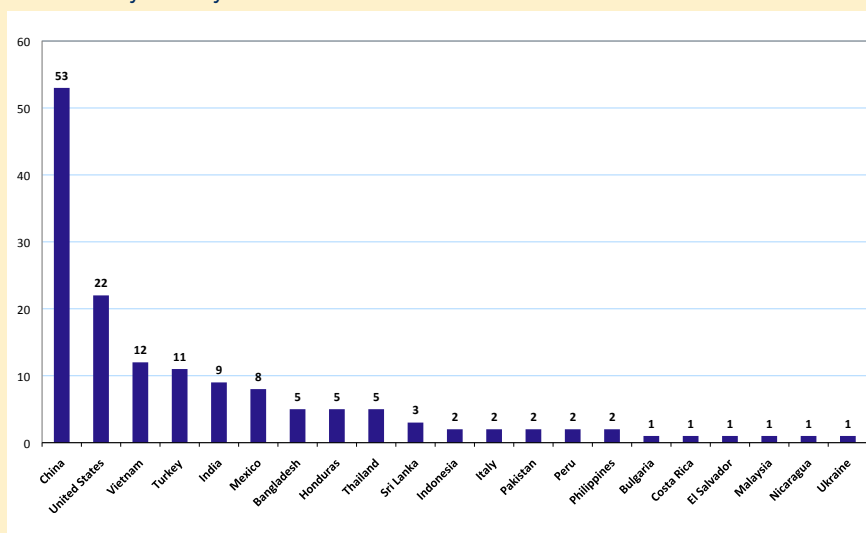
1. As calculated with an exchange rate of RMB 6.505 to USD 1.00

# INDEPENDENT EXTERNAL MONITORING

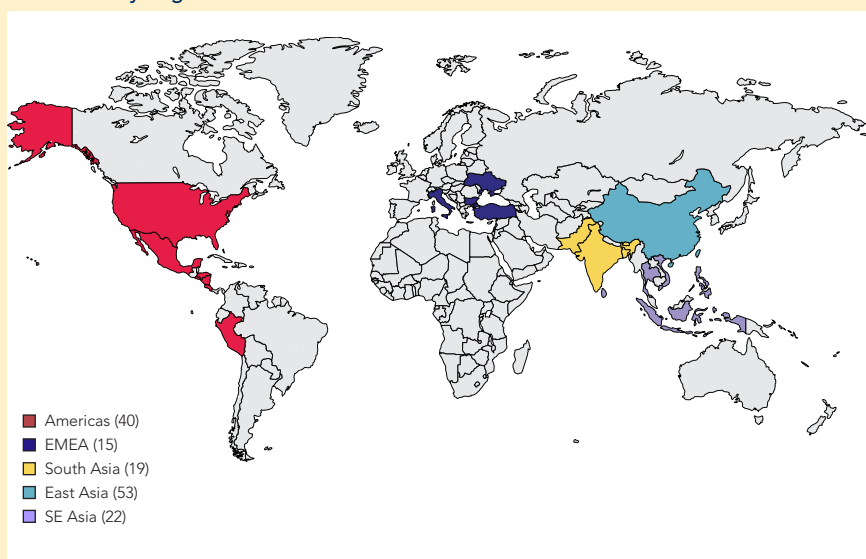
**F**LA is committed to ensuring the implementation of its Workplace Code of Conduct. Upholding that commitment requires due diligence. A core component of the FLA's program is conducting unannounced Independent External Monitoring (IEM) of factories used by FLA affiliates and evaluating compliance with all code elements. Submitting to the FLA's monitoring program is one of the ten obligations affiliated companies are required to fulfill. Transparency is a foundational pillar of the FLA process, and therefore, the findings for all inspections are posted to our website as Tracking Charts, which can be found at [www.fairlabor.org](http://www.fairlabor.org) under Public Reporting.

In 2010, FLA-accredited monitors conducted 149 factory visits in 21 countries in the Americas, East Asia, Europe, the Middle East and Africa (EMEA), South Asia and South East Asia. Participating Companies accounted for a majority of the IEM audits in 2010, with 99 of 149 audits. FLA-accredited monitors conducted 10 audits for Participating Suppliers, a new but expanding group of affiliates. There were 32 IEMs conducted for Category B Collegiate Licensees. In 2009, pilot IEM audits were initiated for Category C Licensees. In 2010, 10 licensees in this category received IEMs, 8 of which also received simultaneous headquarter visits to verify the responses they provided in their Licensee Profile and Self Assessment.<sup>1</sup>

2010 IEMS by Country



2010 IEMS by Region



1. One of these audits was shared by a Participating Company and a Category B Licensee, and another by two Category C Licensees, which were counted twice in the breakdown by affiliate category above.



## EXAMINING WAGES ALONG THE SUPPLY CHAIN

**O**n October 25, 2010, FLA convened a second stakeholder forum on the issue of wages. The forum, titled “Wages Along the Supply Chain: Developments and Responses,” was held in Hong Kong at the offices of Participating Company Phillips-Van Heusen Corporation, and brought together academics, practitioners, and representatives of international organizations, companies, trade unions, and monitoring organizations to discuss recent wage developments and responses to address wage issues.

This event was a follow-up to the 2009 FLA stakeholder forum, “Wages Along the Supply Chain: Assessment and Prospects,” in which participants

encouraged FLA to continue leading a dialogue on wage issues. In 2010, FLA launched [www.fair-wage.com](http://www.fair-wage.com) to help stakeholders share wage data, wage setting mechanisms, and best practices; and encourage commitments from brands to support anonymous self-assessments of their suppliers on wages in order to develop a database that would permit analysis of wage information and development of strategies going forward.

FLA also continued working with Professor Daniel Vaughan-Whitehead on the conceptualization of fair wages. Fair wages is a more dynamic and comprehensive concept than the meeting of a given wage level; not only do they comprise compliance with all

legal requirements but they also gauge the extent to which wages within an enterprise are equitable, result from social dialogue and reward workers for their contribution.

In addition to defining fair wages, Mr. Vaughan-Whitehead has also developed a methodology to audit the implementation of its different dimensions and tested it at a number of factories in China and Vietnam. Read more in this report’s foreword.

FLA will continue exploring—and advocating for—fair wages, and bringing stakeholders to the table to find sustainable solutions.



H&M HENNES & MAURITZ AB

“ C.CAWDU is standing firmly to defend workers’ rights in Cambodia—especially regarding wage issues—so that Cambodian workers can support their families. Collaborating with organizations like FLA helps C.CAWDU and workers to have a stronger voice and advocate for better negotiations toward decent wages for all.”

—ATHIT KONG, COALITION OF CAMBODIAN APPAREL WORKERS’ DEMOCRATIC UNION (C.CAWDU)

“ As a major buyer of garments, ensuring fair and sustainable wages paid by our suppliers in the global garment supply chain is essential for us. FLA’s work and our joint projects are important to H&M and the industry as a whole.”

—LARS-AKE BERGQVIST, H&M HENNES & MAURITZ AB

“ Wage inequality and disparity often exist even if a factory pays the minimum wage. The concept of fair wages is more dynamic and comprehensive than the meeting of a given wage level.”

—DANIEL VAUGHAN-WHITEHEAD, SCIENCES-PO, PARIS

The FLA's Workplace Code of Conduct is based on International Labour Organization (ILO) standards. Each code element is supported by specific benchmarks that help us measure a factory's compliance with that code element. At least one benchmark in the Health and Safety code element was breached in 95 percent of the factories audited in 2010. There were also numerous noncompliances in factories for Hours of Work, Freedom of Association, and Wages, Benefits, and Overtime.

FLA affiliates are responsible for working with the factory following an IEM audit to develop a corrective action plan to address the noncompliances, to conduct follow-up visits to ensure the plan is implemented, and to provide status reports to FLA.

Different forms of noncompliance lead to different approaches and timing regarding remediation plans. Some noncompliances may be relatively easy to fix, such as adding fire extinguishers or recharging them. In these cases, remediation can be carried out quickly and documented through certificates, photographs and other simple documentation.

Other noncompliances, however, are more complex and take much longer to remediate, such as violations of freedom of association, discrimination, or excessive hours of work. In these cases, it is instructive to investigate the root cause of the noncompliance, which could be a policy, procedure or implementation issue. Multi-year remediation plans are common with

regard to complex noncompliance issues and involve both short-term solutions as well as long-term systemic change.

Each code element is evaluated based on a combination of compliance benchmarks:

- Substantive benchmarks are considered a direct violation of the rights and duties embodied in the FLA Workplace Code of Conduct.
- Procedural benchmarks refer to systems or administrative processes whose absence in a factory could lead to the violation of a code provision.
- Miscellaneous benchmarks refer to issues that do not fit neatly into existing FLA benchmarks.

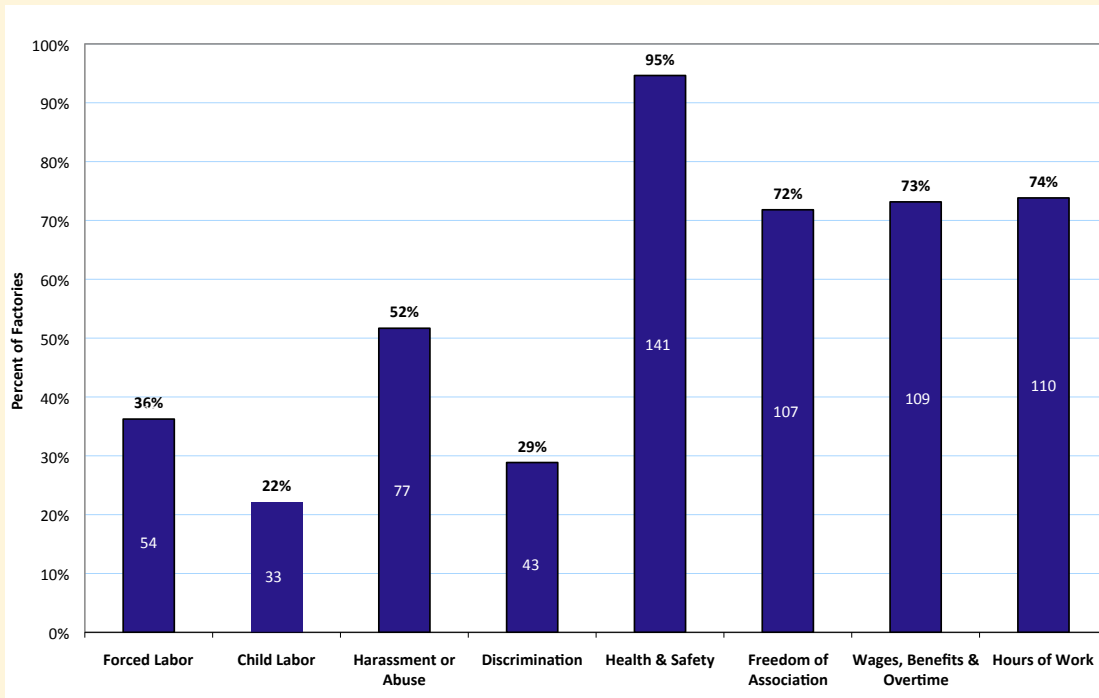
This distinction is important because, as you will note below, the vast majority of noncompliances with respect to the Child Labor code element were of a procedural or miscellaneous nature (90% in 2010) rather than a direct violation involving the employment of children. Procedural violations included, for example, not having an age verification system that meets FLA standards or ignoring certain legal procedures, such as employing juvenile workers of an eligible age but who have not registered with the local labor bureau or who have not had the physical examination required by law. More details on the FLA benchmarks can be found at [www.fairlabor.org](http://www.fairlabor.org).

The charts below show the distribution of noncompliances by code element for 2010.

Different forms of noncompliance lead to different approaches and timing regarding remediation plans.

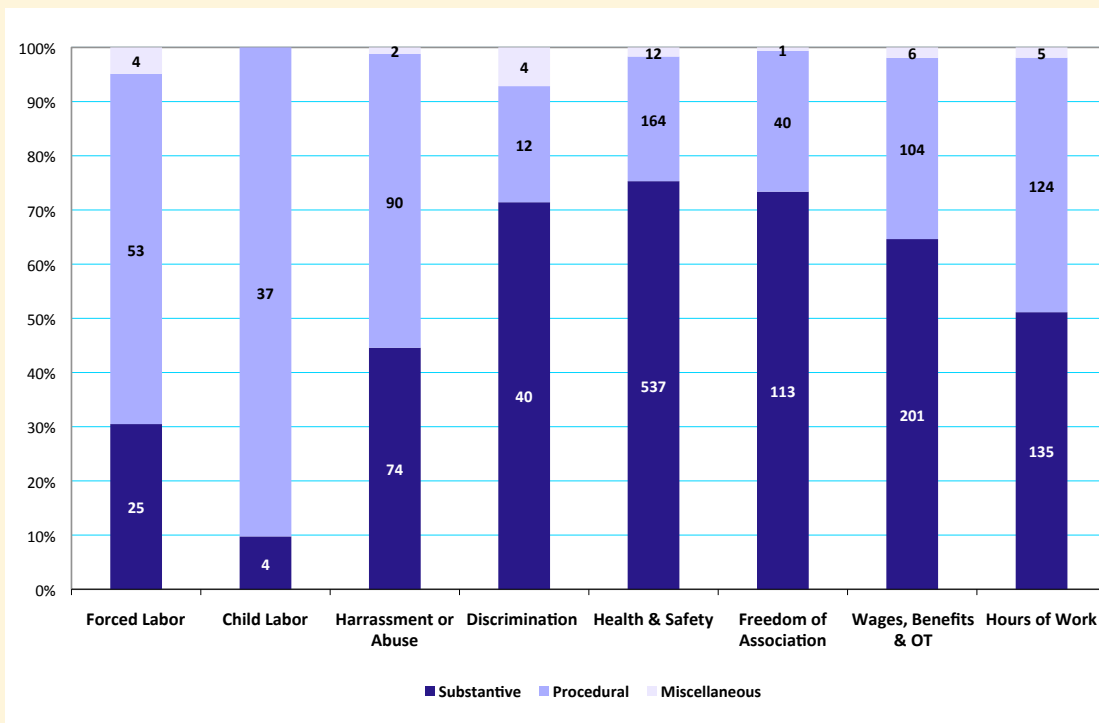
## COMPLIANCE

2010 Non-Compliances by Code Element



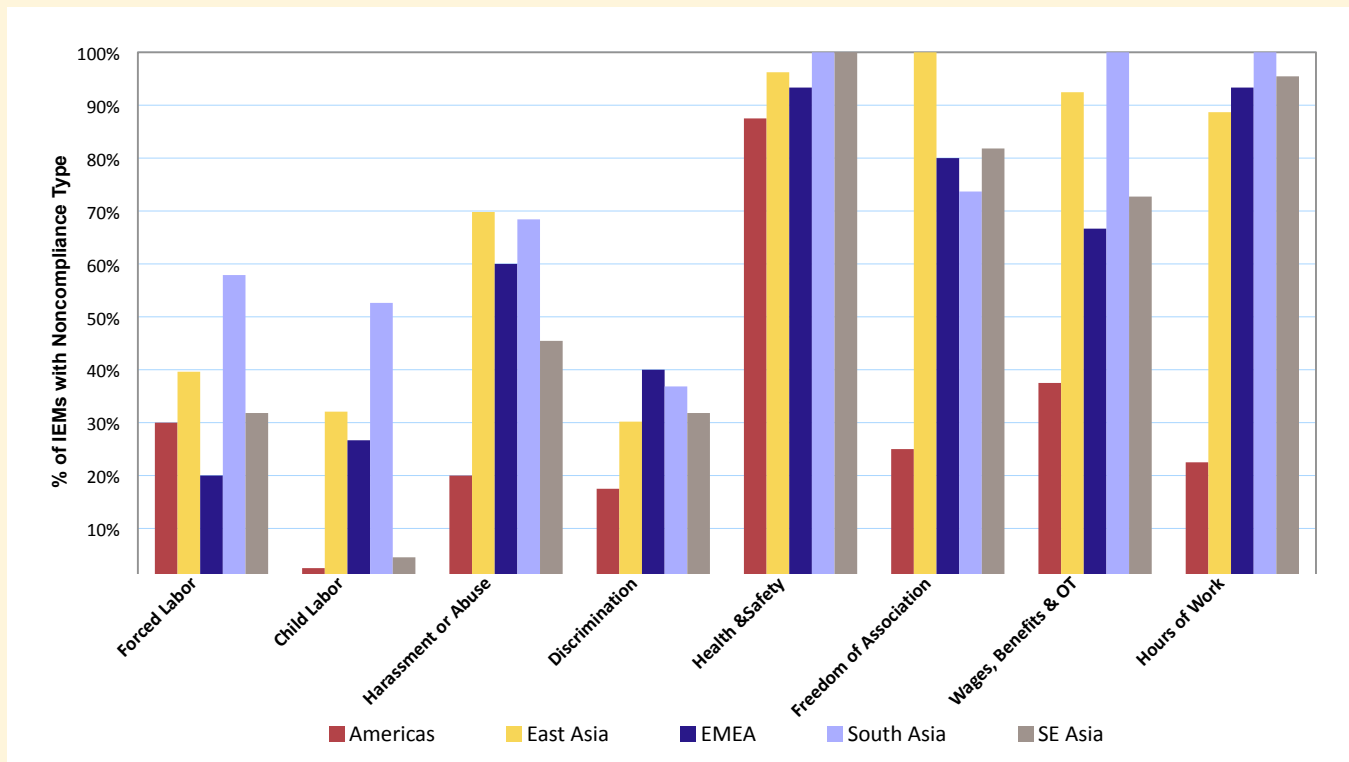
There were 674 instances in which at least one benchmark of the FLA Workplace Code of Conduct was breached.

2010 Procedural vs. Substantive Non-Compliances



There were 1,787 instances of noncompliance based on the benchmarks reported by accredited monitors in 2010, which translates into an average of 12 instances of noncompliance per factory inspection.

## 2010 Regional Non-Compliances in Comparison



**Overview:** The 149 audits conducted across all five regions resulted in 1,787 findings of noncompliance, or roughly 12 findings of noncompliance per audit. The code element most frequently breached was Health and Safety, with at least one breach of the benchmarks associated with this code element identified in 141 out of 149 audits (95%), followed by one or more in 110 of the audits (74%) for Hours of Work and 109 (73%) in Wages, Benefits, and Overtime.

**The Americas:** The 40 audits conducted in the Americas resulted in 271 findings of noncompliance, or roughly 6.8 findings of noncompliance per audit. The code element most frequently breached in the Americas was Health and Safety, with at least one breach of the compliance benchmarks associated with this code element identified in 35 out of 40 IEMs.

**EMEA:** The 15 audits conducted in the EMEA region resulted in 189 findings of noncompliance, or roughly 12.6 findings of noncompliance per audit. At least one benchmark relating to the Hours of Work and Health and Safety elements was breached in each of the 14 audits conducted in the region. Noncompliances were also high for Freedom of Association with at least one benchmark of this code element breached in 12 of 15 inspections.

**East Asia:** The 53 audits conducted in East Asia resulted in 702 findings of noncompliance, or roughly 13.2 findings of noncompliance per audit. For all 53 IEMs conducted in China, FLA-accredited monitors recorded a violation of the benchmark regarding the right to freedom of association.\* Noncompliances were also high for Health and Safety, Hours of Work, and Wages, Benefits and Overtime, with at least one benchmark in each element breached in at least 47 of 53 audits.

**South Asia:** The 19 audits conducted in South Asia resulted in 330 findings of noncompliance, or roughly 17.4 findings of noncompliance per audit. In all of the 19 audits conducted in the region, FLA-accredited monitors recorded at least one violation of the benchmark regarding Health and Safety, Hours of Work, and Wages, Benefits, and, Overtime.

**South East Asia:** The 22 audits conducted in South Asia resulted in 295 findings of noncompliance, or roughly 13.4 findings of noncompliance per audit. One or more of the benchmarks associated with Health and Safety were recorded by FLA-accredited monitors as breached in all 22 audits. For all 12 IEMs conducted in Vietnam, there was a violation of the benchmark regarding the right to freedom of association. In total, 18 out of 22 audits (82%) conducted in the region had at least one noncompliance with respect to the Freedom of Association and Collective Bargaining code element.\*\*

\* Each of the IEMs conducted in China has the following text included on the corresponding tracking chart to reflect the systemic noncompliance with the FLA benchmark on Freedom of Association: "The Chinese constitution guarantees Freedom of Associations (FOA); 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 FOA, 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. 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 stipulates 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. Trade unions also have an enhanced role in dispute resolution."

\*\* Each of the IEMs conducted in Vietnam has the following text included on the corresponding tracking chart to reflect systemic noncompliance with the FLA benchmark on Freedom of Association: "Vietnam has not ratified ILO Conventions 87 or 98. Under Vietnamese law, all unions are required to affiliate with the single trade union, the Vietnam General Confederation of Labor (VGCL), which is affiliated with the Communist Party. With respect to such union monopolies, the ILO Committee on Freedom of Association has stated that the rights of workers to establish organizations of their own choosing implies... the effective possibility of forming... [trade unions] independent both of those which exist already and of any political party. Vietnam's legal framework is therefore not compatible with the ILO Principles on Freedom of Association and, as such, all factories in Vietnam fail to comply with the FLA Code standard on Freedom of Association."

## INDEPENDENT EXTERNAL VERIFICATION

**F**LA selects a sample of the audits conducted in previous years and arranges for an accredited independent external monitor to revisit the factories to verify that corrective actions were taken to remedy noncompliances. In 2010, FLA conducted 38 Independent External Verifications (IEVs) of corrective action plans for inspections conducted in previous years. In our experience, a two- to three-year period should elapse between the development of a corrective action plan and a verification assessment in order to be able to measure the impact of the more complex remediation plans. Verification reports are posted on the FLA website alongside other Tracking Charts.

Two important points should be taken into consideration in reviewing the results of the verifications. First, unlike inspections that are selected at random, the verification visits target factories facing critical and

challenging noncompliance issues, such as nonpayment of wages, egregious safety and health violations, freedom of association, and harassment or abuse issues. FLA targets cases for verification based on the severity of the issues that emerged from the IEM audits.

Second, when returning to these factories, FLA-accredited monitors were asked to focus on the original noncompliances or risks of noncompliance identified in the original IEM audits and to evaluate progress toward remediation. The monitors were also asked to cite any new noncompliance issues they observed.

The largest number of noncompliances monitors reviewed was in the Health and Safety area, reflective of the distribution of noncompliances for all inspections in general. Since the verification audits were weighted toward re-evaluating situations where complex and critical issues had emerged in the inspections, there were a higher number of cases involving

As we have come to understand the limitations of monitoring, FLA has been at the forefront of developing a sustainable compliance methodology that we believe will have significant impact for positive change at the factory level.



harassment or abuse than usually found in general audits.

Verifications illustrate a challenge with using a monitoring system alone for due diligence. An unannounced, external audit of a factory provides a snapshot of issues within the factory at a point in time but does not identify the root causes of the problem. In revisiting factories to verify remediation of past noncompliances, monitors often identified additional or new noncompliances. As we have come to understand the limitations of monitoring, FLA has been at the forefront of developing a sustainable compliance methodology that we believe will have significant impact for positive change at the factory level.



#### 2010 IEVs by Region

Region	Number of Verifications	Percent
Americas	10	26%
East Asia	9	24%
EMEA	5	14%
South Asia	7	18%
Southeast Asia	7	18%
TOTAL	38	

In 2010, 55% of noncompliances were found to be fully remediated by FLA affiliates and their suppliers, and in 78% of the issues identified previously, monitors were able to verify full or partial remediation. Among the revisited factories, 118 new findings of noncompliances surfaced during the verification audits, requiring additional remediation steps. The majority of the newly-identified noncompliances were also in Health & Safety (40%), followed distantly by Hours of Work (15%).

#### 2010 Verification Audit Results by Code Element

Code Element	Complete / Verified	Improved / Ongoing	No Change	Risks Addressed	Risks Not Addressed	Total Original	% Success Rate*	New Findings
Code Awareness	30	8	15	1	5	59	66%	3
Forced Labor	18	2	3	1	0	24	88%	5
Child Labor	12	3	1	2	0	18	94%	0
Harassment or Abuse	15	8	8	2	0	33	76%	6
Discrimination	10	0	3	5	0	18	83%	3
Health & Safety	126	40	36	14	1	217	83%	47
Freedom of Association	14	5	12	7	4	42	62%	8
Wages & Benefits	59	11	13	5	2	90	83%	17
Hours of Work	30	15	20	4	3	72	68%	21
Overtime Compensation	15	3	5	1	0	24	79%	6
Miscellaneous	6	2	1	0	0	9	89%	2
Total Verifications	335	97	117	42	15	606	78%	118
% By Status	55%	16%	19%	7%	2%	n/a	n/a	n/a

\*Completed plus improved remediation plus risks addressed.

### USING FLA'S APPROACH TO END CHILD LABOR AND OTHER NONCOMPLIANCES IN AGRICULTURE

Concerns about unfair labor practices prevailing in the agriculture sector continued to escalate at the turn of the century. Although many improvements had been made in the footwear and apparel industries, FLA recognized that a lack of standards and monitoring in the agriculture industry was making it impossible to improve working conditions universally. Reports of poor working conditions in the industry poured in from across the globe—from child labor in hybrid seed production; to poor working conditions in cotton production in Uzbekistan, Pakistan and India; and unfair treatment of workers at cocoa farms in Africa and coffee estates in Central America.

In 2004, FLA launched a pilot project with Syngenta Seeds Inc., a Swiss agro-business seeking assistance with monitoring of working conditions throughout its global hybrid seed supply chain. Since the project's launch, FLA has built an in-depth understanding of the tasks and risks involved in hybrid seed production, and developed and tested a monitoring system and agriculture-specific benchmarks, which are based on ILO conventions and FLA's Principles of Fair Labor and Responsible Sourcing.

Since the launch of the project, Syngenta has developed a child labor monitoring tool for the farms; introduced an incentive scheme to reward growers who are consistently in compliance; and created a progressive disciplinary policy to blacklist growers found delinquent on child labor for two consecutive production seasons.



Syngenta's Me & Mine program teaches students in a village school about labor standards.

Syngenta has collaborated with local growers, schools, and local and village government officials to launch several awareness-building programs on preventing child labor and health and safety violations, and created tools in local languages, such as the “Best Seed Production Practices” booklet. Additionally, Syngenta developed procedures for reporting grievances.

In 2010, each of the more than 12,000 hybrid vegetable seed farms in India were internally monitored and received follow-up visits. Analysis of the data collected during these visits showed an improved level of compliance throughout the Syngenta supply chain. Analysis of the data collected through internal monitoring of 100 percent of hybrid vegetable seed farms in India in 2010 showed an improved level of compliance throughout the Syngenta supply chain. Okra production, for example, showed a reduction of child labor noncompliance from 1.76% in 2007 to 0.04% in 2010; and health and safety noncompliance was reduced from 45% in 2007 to 6% in 2010.

One area identified for improvement was engagement with female workers, which was limited due in part to local cultural norms. To ensure women were receiving adequate training, female mobilizers were recruited to interact with the women and their families. Innovative communications techniques—such as board games to support training—have proven highly successful.

Over the past year, Syngenta has developed its program, consulting in India with business, NGOs and universities to measure impact and develop next steps. The company also participated in the Child Care Program—a joint initiative of seed companies in collaboration with NGOs and governments to address the problem of child labor in seed production activities.

In January 2010, FLA and Syngenta agreed to significantly expand the scope of the project. Efforts in the next year will focus on growing the program in India to include field crops and conducting initial mapping and risk evaluations in Romania, Brazil and Argentina.

“FLA has done pioneering work in establishing decent conditions of labor in India’s agriculture sector. It has focused not only on child labor but also on minimum wages. Syngenta should be complimented for its commitment to ethical work standards in its production areas. DRMU wishes that such standards be also adopted in the cottonseed plots of Gujarat, where children continue to be deployed in large numbers.”

—SUDHIR KATIYAR, DAKSHIN RAJASTHAN MAZDOOR UNION (DRMU)

“Since 2004, Syngenta has partnered with FLA to develop new approaches to improve working conditions on farms in India supplying seeds to Syngenta. These programs are increasing awareness on the farm and within rural communities about health and safety, child labor, education, acceptable working hours and wages. Through this partnership, Syngenta and FLA are helping thousands of farmers to improve their working environments and live better lives.”

—DR. JUAN GONZÁLEZ-VALERO, SYNGENTA

“The progress observed for workers in the agricultural supply chain results from the collaboration between stakeholders, including Syngenta staff, that is the hallmark of FLA. Working together, stakeholders can find innovative solutions for difficult labor challenges. This progress resonates strongly with university communities that hold social justice as a core value and are actively engaged in its achievement.”

—MARSHA DICKSON, UNIVERSITY OF DELAWARE;  
EDUCATORS FOR SOCIALLY RESPONSIBLE APPAREL BUSINESS



DRMU



DRMU



NAME: BHANDARNATH SHIRIPATH SHIRLAKAR  
JOB: SEED FARM OWNER  
NUMBER OF YEARS ASSOCIATED WITH SYNGENTA: 10

“FLA monitoring has helped me substantially, and has taught me more about the importance of child education and the evils of child labor. Even if FLA were to discontinue monitoring working conditions on the farms, I would never engage children here. I want to help break the vicious cycle of child labor and poverty. Children form our future generations.”



Join the Fair Labor Association in protecting workers' rights  
and improving working conditions worldwide.

To learn more about affiliating or getting involved with FLA,  
visit [www.fairlabor.org](http://www.fairlabor.org)  
or contact [flamembership@fairlabor.org](mailto:flamembership@fairlabor.org)



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