



2009

## FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** H&M Hennes & Mauritz AB

**COUNTRY:** China

**FACTORY CODE:** 440015433H

**MONITOR:** Social Compliance Services  
Asia Ltd.

**AUDIT DATE:** September 14-15, 2009

**PRODUCTS:** Underwear, Lingerie Product

**PROCESSES:** Sewing, Packing

**NUMBER OF WORKERS:** 2,431



## CONTENTS:

Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses	3
Wages, Benefits and Overtime Compensation: General Compliance Wages, Benefits and Overtime Compensation	5
Wages, Benefits and Overtime Compensation: Minimum Wage	6
Wages, Benefits and Overtime Compensation: False Payroll Records	8
Freedom of Association: Right to Freely Associate	10
Code Awareness	12
Health and Safety: Evacuation Requirements and Procedure	13
Health and Safety: Safety Equipment and First Aid Training	15
Health and Safety: Personal Protective Equipment	16
Health and Safety: Bodily Strain	17
Hours of Work: General Compliance Hours of Work	18
Hours of Work: Time Recording System	19



## **Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses**

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

### **Noncompliance**

**Explanation:** 1. As per the social insurance contribution records of 2,431 employees hired, the factory covered 2,431 employees under the work related accidental insurance policy; 2,418 employees were covered under the medical and child bearing insurance policy and 1,353 employees were covered by the retirement and unemployment insurance policies.

Law Reference: Article 73 of PRC Labor Law.

2. Due to inconsistencies noted between the time and payment records and other information and records obtained during the audit, the auditors were unable to accurately verify the workers actual working hours, wages and benefits status at the facility.

**Plan Of Action:** 1. H&M requires that factories comply with local social security regulations. And we have asked the factory to provide us with a sustainable plan for covering more workers under social security.

2. H&M is, first and foremost, interested in being shown the true situation in the factory. We require factories to always provide correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirements of transparency. Only after knowing the real compensation and overtime, are we able to engage in dialogue with the factory to find sustainable solutions for improvement. In 2009 we implemented a method to help factories collect and analyze overtime and compensation data. For 2010 we have set clear targets for securing minimum wage and overtime compensation and communicated the business consequences of not meeting these targets. Furthermore, we strongly encourage factories to participate in external support programs by consultants that combine strengthening HR management through productivity improvements.

**Deadline Date:** 03/31/2010



**Supplier CAP:** All new employees are covered by industrial injury, medical and unemployment insurance when they are hired by our factory. After their probation period, workers are additionally signed up for retirement and maternity insurance, thus total complete social insurance. For employees hired before this policy was implemented, the factory is informing them and encouraging them to buy social insurance sincerely, but at this point it remains optional to them. However, the intended plan for full coverage is as follows: 30% of workers who did not participate in the social insurance program will be covered before 31st Dec, 2010. This percentage will be increased to 60% before 30th Jun, 2011. We will achieve 100% coverage before 31st Dec, 2011.

**Supplier CAP** 12/31/2011

**Date:**

**Action**

**Taken:**

**Plan** No

**Complete:**

**Plan**

**Complete**

**Date:**

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## **Wages, Benefits and Overtime Compensation: General Compliance Wages, Benefits and Overtime Compensation**

WBOT.1 Employers shall comply with all local laws, regulations and procedures concerning the payment of wages and benefits, including overtime compensation. In any case where laws and the FLA Code are contradictory, the standard that provides the greatest protection for workers shall apply. Where provisions are lacking, employers shall take measures to reasonably accommodate matters concerning the payments of wages and benefits, including overtime compensation. (S)

### **Noncompliance**

**Explanation:** Due to the inconsistencies noted between the time and payment records and other information and records obtained during the audit, auditors were unable to accurately verify workers actual working hours, wages, benefits, including the overtime compensation. For instance, production related records showed that workers were working on Sundays; for example September 6, 2009 (Sunday), August 30, 2009 (Sunday), July 26, 2009 (Sunday), May 24, 2009 (Sunday), etc. However, corresponding time and payment records showed that workers were not working on these Sundays. On some occasions, despite production related records showing that workers were working overtime, the corresponding time record showed that workers were leaving at 17:30 without any overtime work.

Law reference: Article 44 of PRC Labor Law.

**Plan Of Action:** H&M is first and foremost interested in being shown the true situation in the factory and we require factories to always provide correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirements of transparency. Only after knowing the real compensation and overtime are we able to engage in dialogue with the factory to find sustainable solutions for improvement. In 2009 we implemented a method to help factories collect and analyze overtime and compensation data. For 2010 we have set clear targets for securing minimum wage and overtime compensation and communicated the business consequences of not meeting these targets. Furthermore, we strongly encourage factories to participate in external support programs by consultants that combine strengthening HR management through productivity improvements. To address this finding, a meeting was held with the supplier who committed to total transparency to monitors sent by H&M's affiliated organizations.

**Deadline Date:** 03/31/2010

**Supplier CAP:** This factory will ensure total transparency to monitors sent by H&M's affiliated organizations. We will also reinforce internal inspection, so as to avoid mistakes of dates being wrongly recorded by workers.



**Supplier CAP** 03/31/2010

**Date:**

**Action**

**Taken:**

**Plan** No

**Complete:**

**Plan**

**Complete**

**Date:**

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### **Wages, Benefits and Overtime Compensation: Minimum Wage**

WBOT.2 Employers shall pay workers at least the legal minimum wage or the prevailing industry wage, whichever is higher. (S)

#### **Noncompliance**

**Explanation:** Due to the inconsistencies noted between the time and payment records and other information and records obtained during the audit, auditors were unable to accurately verify workers' actual working hours, wages, benefits, including the overtime compensation. For instance, production related records showed that workers were working on Sundays, such as September 6, 2009 (Sunday); August 30, 2009 (Sunday); July 26, 2009 (Sunday); May 24, 2009 (Sunday), etc. However, corresponding time and payment records showed that workers were not working on these days. On some occasions, despite production related records showed that workers were working overtime at night, corresponding time records showed that these same workers were leaving at 17:30 with no overtime work recorded.

Law reference: Article 48 of PRC Labor Law.



**Plan Of Action:** H&M is first and foremost interested in being shown the true situation in the factory. We require factories to always provide correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirements of transparency. Only after knowing the real compensation and overtime are we able to engage in dialogue with the factory to find sustainable solutions for improvement. In 2009 we implemented a method to help factories collect and analyze overtime and compensation data. For 2010 we have set clear targets for securing minimum wage and overtime compensation. We have communicated the business consequences of not meeting these targets. Furthermore, we strongly encourage factories to participate in external support programs by consultants that combine strengthening HR management through productivity improvements. To address this finding, a meeting was held with the supplier who committed to total transparency to monitors sent by H&M's affiliated organizations.

**Deadline Date:** 03/31/2010

**Supplier CAP:** The factory will ensure total transparency to monitors sent by H&M's affiliated organizations. We will also reinforce internal inspection, so as to avoid dates being wrongly recorded by workers.

1. The factory policy regarding OT and salary: The factory must ensure 1 day rest per week and maximum 3 hours per day overtime (bottom line, in CN); 60 hours per weekly working time cannot be exceeded; legal payment must be paid to workers. As of 2009, it is forbidden to maintain a second set of time records. From March to September 2009, we achieved the goal of 60 hours and 1 day of rest per week. However, because of business growth this year, during the period from October 2009 to February 2010, we will maintain a maximum of 65 hrs per week, 3 overtime hours in a week day and one day of rest per week. After February 2010, we will strictly implement 60 overtime hours policy. To achieve this goal we are trying to partner with a consulting company to improve our production efficiency. In addition, we are working on employees' satisfaction improvement so as to achieve low turnover and keep high skillful workers.

2. To avoid any violation to the company policy by line leaders or supervisors, we will fully communicate with workers regarding company overtime, payment policy and regular training. We will also reinforce our grievance system and encourage workers to complain to their line leader or supervisor in case of any violation against the policy.

**Supplier CAP Date:** 03/31/2010

**Action Taken:**

Plan No  
Complete:

Plan  
Complete  
Date:

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### **Wages, Benefits and Overtime Compensation: False Payroll Records**

WBOT.19 Employers shall not use hidden or multiple payroll records in order to hide overtime, to falsely demonstrate hourly wages, or for any other fraudulent reason. Payroll records maintained shall be authentic and accurate. (P)

#### **Noncompliance**

**Explanation:** Having compared information on time and payment records provided with other information and records obtained during audit, it was noted that there were various inconsistencies. For instance, production related records showed that workers were working on various Sundays, such as September 6, 2009 (Sunday), August 30, 2009 (Sunday), July 26, 2009 (Sunday), May 24, 2009 (Sunday), etc. Corresponding time and payment records, however, showed that workers were not working on these Sundays. On some occasions, despite production related records showing workers were working overtime at night, corresponding time records showed that these workers were signing off at 17:30 and no overtime work was recorded. Due to the aforesaid inconsistencies, the audit team concluded that the time and payment records could not accurately reflect the actual working hours, wages and benefits status of workers at the facility.

**Plan Of Action:** H&M is first and foremost interested in being shown the true situation in the factory and we require factories to always provide the correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirements of transparency. Only after knowing the real compensation and overtime are we able to engage in dialogue with factory to find sustainable solutions for improvement. In 2009 we implemented a method to help factories collect and analyze overtime and compensation data. For 2010 we have set clear targets for securing minimum wage and overtime compensation and communicated the business consequences of not meeting these targets. Furthermore, we strongly encourage factories to participate in external support programs with consultants that combine strengthening HR management through productivity improvements. To address this finding, a meeting was held with the supplier who was committed to total transparency to monitors sent by H&M's affiliated organizations.





**Deadline** 03/31/2010  
**Date:**

**Supplier** The factory will ensure total transparency also to monitors sent by H&M's affiliated  
**CAP:** organizations. We will also reinforce internal inspections, so as to avoid mistakes of  
dates being incorrectly recorded written by workers.

**Supplier CAP** 03/31/2010  
**Date:**

**Action**  
**Taken:**

**Plan** No  
**Complete:**

**Plan**  
**Complete**  
**Date:**

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## Freedom of Association: Right to Freely Associate

FOA.2 Workers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization. The right to freedom of association begins at the time that a worker seeks employment, and continues through the course of employment, including eventual termination of employment, and is applicable as well to unemployed and retired workers. (S)

### Noncompliance

**Explanation:** *FLA Comment:* The Chinese constitution guarantees Freedom of Association (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 Oct. 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. 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.

**Plan Of Action:** H&M requires that workers should be free to form associations of their own choosing and to bargain collectively. We do not accept any disciplinary actions from the factory against workers who choose to peacefully and lawfully organize or join an association. In addition, during our audits we put efforts towards building effective communication channels between workers and management.

**Deadline Date:** 09/30/2009



**Supplier CAP:** There are employee representatives in our factory.

1. One employee representative is elected by employees in each line. Then all resumes of employee representatives from each line are posted at each floor by HR Dept. Then two employee representatives at each floor are elected competitively by all employees of each floor.

2. Employee representatives directly communicate with management staff to inform the management of the workers' comments and requests.

3. The employee representatives meeting is regularly held between employee representatives and the management staff.

**Supplier CAP** 09/30/2009

**Date:**

**Action**

**Taken:**

**Plan** No

**Complete:**

**Plan**

**Complete**

**Date:**

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**Code Awareness:**

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

**Noncompliance**

**Explanation:** FLA affiliated company's COC poster was not posted at the factory.

**Plan Of Action:** H&M does not require the factories to post the H&M Code of Conduct. We do, however, require that the factory's internal regulations be set up in line with our Code of Conduct and local legislation. Routines should be set up to ensure that these regulations are followed. These regulations should be communicated to all workers in an effective way.

**Deadline Date:** 12/15/2009

**Supplier CAP:** The H&M Code of Conduct was posted on the billboard in front of the dormitory.

**Supplier CAP Date:** 12/15/2009

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**

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### **Health and Safety: Evacuation Requirements and Procedure**

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

#### **Noncompliance**

**Explanation:** 1. The evacuation exit on the 1st floor of production block A was blocked by materials.

Law reference: Article 14.6 of PRC Fire Prevention Law.

2. Workers were not trained on the emergency evacuation plan.

**Plan Of Action:** H&M requires that safety standards in factory, as well as dormitory, are maintained according to local law and our Code of Conduct. Worker safety should be a priority at all times. We require our factories to ensure emergency exits are clear and unlocked at all times. Workers should be aware of and trained in fire safety and evacuation. Fire extinguishers, fire alarms, evacuation plans and emergency exit lights should be functioning and properly situated. We have also provided training sessions on our safety benchmarks and the concept and importance of setting up a sustainable compliance management system. Furthermore, we encouraged factory to participate in external training on health and safety in order to improve health and safety awareness in factory.

**Deadline Date:** 12/15/2009



**Supplier CAP:** 1.1. In order to keep the evacuation exit unblocked, all the employees are now provided with safety training when they join the factory. Our human resources clerks are responsible for the training.

1.2. Evacuation exit shouldn't be blocked; this is one of the basic requirements for emergency evacuation. Each year, we hold 2 fire drill preparation meetings and 3 fire drills. Entire management staff attends these meetings and all employees are informed that safety exits shouldn't be blocked.

1.3. The entire management staff will monitor the aforementioned evacuation exit and make sure that it isn't blocked.

1.4. Our compliance representatives now inspect the evacuation exits to ensure that they are not blocked.

2.1. All the employees are provided with emergency evacuation training when they join the factory.

2.2. We now have a more detailed emergency evacuation plan. We also keep more detailed training records for fires, earthquakes and other emergencies.

**Supplier CAP Date:** 12/15/2009

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**

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### Health and Safety: Safety Equipment and First Aid Training

H&S.10 All safety and medical equipment (such as fire fighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

#### Noncompliance

**Explanation:** First aid procedures were not posted in the workshop.

**Plan Of Action:** H&M requires that the workers' safety be a priority at all times in factories. The factory should have well equipped first aid boxes available in each workshop. The factory should ensure each workshop has a sufficient number of staff trained in first aid present during working hours. Furthermore, an emergency preparedness plan, including first aid procedure, should be established and effectively communicated to all workers so that medical care can be provided for workers in the event of injury or illness.

**Deadline Date:** 12/15/2009

**Supplier CAP:** First aid procedures have been posted outside the first aid boxes in the workshops.

**Supplier CAP Date:** 12/15/2009

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**

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### Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

#### Noncompliance

**Explanation:** There were no educational posters or signs promoting PPE awareness.

Law Reference: Article 87 of PRC Factory Safety and Health Regulation.

**Plan Of Action:** The workers should be provided with relevant personal protective equipment depending on work process. In addition, workers should also receive verbal and written instructions (in their native language) on how to use this equipment. We have also provided training for factories on our safety benchmarks and the importance of setting up a management system for sustainable compliance. Furthermore, we encouraged the factory to participate in external training on health and safety in order to improve the health and safety awareness in the factory.

**Deadline Date:** 12/15/2009

**Supplier CAP:** Educational posters promoting PPE awareness were posted at the side of the operator long before.

**Supplier CAP Date:** 12/15/2009

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**

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**Health and Safety: Bodily Strain**

H&S.20 Workstations, including seating and standing arrangements and reach required to obtain tools, shall be designed and set-up in such a manner as to minimize bodily strains. Employers shall train workers in proper lifting techniques and items such as belts shall be provided. (S)

**Noncompliance**

**Explanation:** There was no ergonomics program or system available in the facility.

**Plan Of Action:** H&M is working with the factory to develop policies and systems to ensure that health and safety standards are always in line with local law and our Code of Conduct and to make sure that these are communicated to all workers in the factory. The management should ensure that the working environment is healthy and safe.

**Deadline Date:** 05/15/2010

**Supplier CAP:** We are trying to establish an ergonomics management system.

**Supplier CAP Date:** 05/15/2010

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**

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## Hours of Work: General Compliance Hours of Work

HOW.1 Employers shall comply with all local laws, regulations and procedures concerning hours of work, public holidays and leave. (S)

### Noncompliance

**Explanation:** Due to various inconsistencies noted between the time records and other information and records obtained during the audit, workers actual working hours, including hours of work, public holidays and leave could not be accurately verified. For instance, production related records showed that workers were working on various Sundays, such as September 6, 2009 (Sunday), August 30, 2009 (Sunday), July 26, 2009 (Sunday), May 24, 2009 (Sunday), etc. However, corresponding time and payment records showed that workers were not working on these Sundays. On some occasions, despite production related records showed that workers were working on night overtime, corresponding time records showed that workers were leaving at 17:30 without any overtime work. In addition, coaching devices were also noted, for instance, supervisors and workers were reminded for not putting down working any of the Sundays noted in the production related records.

**Plan Of Action:** H&M is first and foremost interested in being shown the true situation in the factory and we require factories to always provide correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirements of transparency. Only after knowing the real compensation and overtime are we able to engage in dialogue with the factory to find sustainable solutions for improvement. In 2009 we implemented a method to help factories collect and analyze overtime and compensation data. For 2010 we have set clear targets for securing minimum wage and overtime compensation and communicated the business consequences of not meeting these targets. Furthermore, we strongly encourage factories to participate in external support programs by consultants that combine strengthening HR management through productivity improvements. To address this finding, a meeting was held with the supplier who committed to total transparency to monitors sent by H&M's affiliated organizations.

**Deadline Date:** 03/31/2010

**Supplier CAP:** [Factory name] will ensure total transparency also to monitors sent by H&M's affiliated organizations. We will also reinforce internal inspection so as to avoid mistakes of dates wrongly written by workers.

**Supplier CAP Date:** 03/31/2010

**Action  
Taken:**

**Plan  
Complete:** No

**Plan  
Complete  
Date:**

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### **Hours of Work: Time Recording System**

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

#### **Noncompliance**

**Explanation:** Having compared the information on the time and payment records provided with other information and records obtained during the audit, various inconsistencies were noted. For instance, production related records showed that workers were working on various Sundays, such as September 6, 2009 (Sunday), August 30, 2009 (Sunday), July 26, 2009 (Sunday), May 24, 2009 (Sunday), etc. Corresponding time and payment records, however, showed that workers were not working on these Sundays. On some occasions, despite production related records showed that workers were working on night overtime, corresponding time records showed that workers were leaving at 17:30 without any overtime work. In addition, coaching devices were also noted, for instance, supervisors and workers were reminded for not putting down working any of the Sundays noted in the production related records. Due to aforesaid inconsistencies, the audit team concluded that the time and payment records could not accurately reflect the actual working hours, wages and benefits status of workers at the facility.

Law reference: Article 36 & 38 of PRC Labor Law.

**Plan Of Action:** H&M is first and foremost interested in being shown the true situation in the factory and we require factories to always provide correct attendance records and salary lists. Providing incomplete or fake documents is a violation of our basic requirements of transparency. Only after knowing the real compensation and overtime are we able to engage in dialogue with the factory to find sustainable solutions for improvement. In 2009 we implemented a method to help factories collect and analyze overtime and compensation data. For 2010 we have set clear targets for securing minimum wage and overtime compensation and communicated the business consequences of not meeting these targets. Furthermore, we strongly encourage factories to participate in external support programs by consultants that combine strengthening HR management through productivity improvements. To address this finding, a meeting was held with the supplier who committed to total transparency to monitors sent by H&M's affiliated organizations.

**Deadline Date:** 03/31/2010

**Supplier CAP:** This factory will ensure total transparency also to monitors sent by H&M's affiliated organizations. We will also reinforce internal inspection so as to avoid mistakes of dates wrongly written by workers.

**Supplier CAP Date:** 03/31/2010

**Action Taken:**

**Plan Complete:** No

**Plan Complete Date:**