



2008

## FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

**COMPANY:** adidas Group, Puma AG  
**COUNTRY:** Cambodia  
**FACTORY CODE:** 360212955G  
**MONITOR:** Kenan Institute Asia  
**AUDIT DATE:** December 25, 2008  
**PRODUCTS:** T-Shirts, Knitwear Jerseys,  
Jumpers, Pullovers, Sweaters, Knitted  
Trousers, Babywear  
**PROCESSES:** Cutting, Sewing,  
Embroidery, Washing, Ironing,  
Finishing, Quality Control, Packing  
**NUMBER OF WORKERS:** 4239



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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)

### **Uncorroborated Evidence of Noncompliance**

**Explanation:** The QA section was provided an extra allowance of \$2 USD per month. This allowance was then cut off due to a cost reduction policy under the new management.

**Plan Of Action:** Due to the economic recession, management plans to reduce factory costs. According to labor laws, there are compulsory wages as well as benefits, which are: minimum wage, seniority bonus, attendance bonus, cost of living allowance. In the past, the factory has provided additional money, which is above the law requirement, as an incentive for ironing workers. In mid-2008, management revised the policy to reduce the additional allowance due to the economic downturn and its impact on exports. As a result, the factory shall restore the extra allowance and decide to provide a bag of rice or other basic food item in order to compensate the cut in allowance. The company confirmed there will not be an extra allowance provision of \$2 USD per month for the QA section this year. However, the management may consider providing an "in kind" additional allowance. The approval process is being carried out with agreement from top management. Local adidas offices will follow up on this matter to explore the possibility of management restoring the allowance.

**Deadline Date:** 08/31/2009

**Supplier CAP:** The factory further clarified that this allowance was provided to QC inspectors as an incentive to make a good quality inspection. However, the management decided to stop this allowance in mid-2008. QC inspectors who were previously given this allowance still continue to receive it until now, but those who were hired thereafter were not provided the allowance from the start of employment. Workers who were interviewed were not aware of this allowance. Recent payroll showed some QC inspectors still receiving this allowance.

**Supplier CAP**

**Date:**

**Action Taken:** Factory clarification: August 3, 2010: A) We provided an allowance of the said amount to the QCs as incentive for performing accurate and precise quality inspection during inline and endline inspections. B) The US \$2 allowance is still being provided to the existing QCs (old workers) without any deduction. C) We did not provide the US \$2 allowance to newer QCs joining the workplace after [the global recession]. D) We cannot take away a benefit that was previously agreed on between workers and managers. Therefore, more senior QC staff continue to receive the allowance. This issue will need further verification during the next remediation visit.

Puma: April 26, 2010 Update: Ongoing. Presently, no more workers receive the US \$2 allowance and management has not yet considered giving this back. Interviewed workers were not aware of this kind of allowance, thus, factory does not seem to be obliged to put it back; it will depend on the decision of the management.

adidas: The factory is to confirm when the allowance can be reinstated. The ability to provide an additional allowance depends on the company's revenue.

**Plan Complete:** No

**Plan Complete Date:**

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**Wages, Benefits and Overtime Compensation: Overtime Compensation for Piece Rates and Other Incentive Schemes**

WBOT.12 Employers shall not set production targets, piece rates, or any other incentive or production system at such a level that the payment for overtime work performed is less than the premium pay required by law. (S)

**Noncompliance**

**Explanation:** During walkthrough on work floor it was found there was a “daily targets” notice posted. If workers could not complete these targets, they would not be allowed to work OT.

**Plan Of Action:**

1. Factory shall set reasonable production targets. Factory policies on voluntary overtime must be observed.
2. Managers, supervisors and workers shall be reminded about the voluntary nature of overtime.
3. Any overtime work done to achieve the target shall be paid for in accordance with the legal requirements.

**Deadline Date:** 01/30/2009

**Supplier CAP:** The factory has brought up the issue of potential unrealistic targets to the production department's lead manager; the related departments will review the target setting. The Human Resources department will ensure that OT work is performed on a voluntary basis and that all who work OT are paid in accordance to the legal requirements.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. Workers confirmed there is no sanction if they do not reach target. Target is used as a basis for productivity incentive only and not about payment of basic wage.

adidas: adidas Social and Environmental Affairs (SEA) team visited the factory in February and interviewed workers. It was found that an overtime request form has been implemented.

**Plan Complete:** No

**Plan** 02/23/2009

**Complete**

**Date:**

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### **Wages, Benefits and Overtime Compensation: Voluntary Wage Deductions**

WBOT.14 Voluntary wage deductions for savings clubs, loan payments, etc. can only be made with the express and written consent of workers and shall be documented in employee files. All such voluntary deductions shall be credited to proper accounts and funds shall not be held illegally or inappropriately by employers. (S)

#### **Noncompliance**

**Explanation:** The consent requested for deducting the workers' wages for the union member fee (1,000 riels) revealed the workers had signed, but it did not reflect the union name. Thus, it could not be proved which union will get which fee.

**Plan Of Action:** 1. The factory needs to set up a system which ensures wage deductions and union dues, such as those required by law or those needing written authorization from workers, are remitted on time to the proper party.

2. Record of deductions and corresponding remittance must be kept on file.

**Deadline** 02/28/2009

**Date:**

**Supplier** Set up and documented all the collection of union fees.

**CAP:**

**Supplier CAP** 02/11/2009

**Date:**

**Action Taken:** Puma: April 26, 2010. Update: Ongoing. Documentation of union dues transfer is inconsistent and needs improvement. The amount of union dues deducted from workers varies in the factory's various accounting records. The amount of money appearing on the receipt of the transfers to the union is less than the amount appearing on the records of detailed deductions from members of each union. The factory explained that the list of affiliated workers is not updated when affiliated workers leave the factory, and therefore the names of former workers continue to appear on the list. Total union dues deduction is reflected in the company payroll and there is a receipt of the union dues transfers to individual union accounts. Also, a membership list of workers shows the total union dues that must be transferred to union account. This issue of union dues documentation must be verified in the succeeding remediation visit.

adidas: SEA visited and discussed an agreement process with HR staff, as well as reviewed the file in February for verification. There are 15 unions in the factory. HR department also generates monthly reports on the details amount. This report is also provided for the top-management review. Each month, the payroll will have a column indicating "Union Fee". The workers will sign the voluntary agreement when they join the union, confirming that they pay 100 riels each month for the union fee.

**Plan Complete:** No

**Plan Complete Date:** 02/11/2009

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**Wages, Benefits and Overtime Compensation: Accurate Calculation and Recording of Wage Compensation**

WBOT.17 All payments to workers, including hourly wages, piecework, benefits, bonuses, and other incentives shall be calculated and recorded accurately. (S)

**Noncompliance**

**Explanation:** No payroll records for part-time workers were presented to the monitor for review during the assessment.

**Plan Of Action:** Factory shall ensure that an accurate record of all workers' working hours, regardless of the nature of their employment, shall be maintained. This record shall be the basis for wage calculation and for corresponding payroll preparation. The factory accounting department is responsible for recording all payment and wage transactions for all workers in the factory, regardless of their employment status. HR department should maintain current copies of the payroll and time records on-site.

**Deadline Date:**

**Supplier CAP:** The payroll records of part-time workers are paid through an employment agency. The duration of working days are dependent on the amount of work available. The summary of payroll records and their working hours are available for reference.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. The factory was not employing part-time workers during the remediation visit. The factory had a hard time including the part-time workers in their iris attendance recording system. Factory will use the bundy clock/punch card in instances when part-time workers are employed. This time recording system will be used as the basis for payroll calculations and wage payment. The factory must ensure that all employment contracts of temporary workers are in accordance with Articles 67 and 73 of the Cambodia Labor Law.

adidas: adidas visited the factory in February and reviewed the payroll system. The factory maintains a copy of all payrolls and time cards in a database system. SEA randomly selected some examples to review and was able to access all attendance records, which matched the payroll calculation for January 2008.

**Plan Complete:** No



**Plan Complete Date:** 01/30/2009

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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:** Sunday work was reflected in a handwritten production record in the ironing department. The facility presented the attendance and payroll records kept separate from the formal records. Thus, double records of payroll and attendance were kept and maintained on-site.

**Plan Of Action:**

1. Factory shall stop the practice of keeping separate records for Sunday work/rest days or for extra overtime. All hours worked must be kept in a single set of attendance records, which shall be the basis for wage computation and payroll preparation.
2. Management shall remind production staff that the practice of keeping more than one set of attendance records or not recording other worked days or hours is not allowed.

**Deadline Date:**

**Supplier CAP:** The company has stopped Sunday work. There has been double record keeping since January 2009.

**Supplier CAP Date:**



**Action Taken:** [Puma](#): April 26, 2010 Update: The factory's order situation is not enough for them to have Sunday overtime work.

[adidas](#): In December 2008, adidas SEA conducted an audit and found similar issues. After January 2009, adidas SEA visited again and found that the factory has placed fewer orders and no longer has overtime on Sundays.

**Plan Complete:** No

**Plan Complete Date:** 01/30/2009

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### **Wages, Benefits and Overtime Compensation: Payroll Record Maintenance/Worker Acknowledgement**

WBOT.20 All compensation records shall be maintained accurately and shall be acknowledged by the worker as accurate. (P)

#### **Noncompliance**

**Explanation:** Payroll records of part-time workers were not presented to the monitor for review during the assessment.

**Plan Of Action:**

1. Factory shall maintain payroll and related wage payment records for all workers, regardless of the nature of their employment.
2. Factory shall employ an internal checking system to ensure accuracy of the records. Workers shall also be given access to these records in order to ensure that the information is accurate. According to an adidas SEA requirement, where the workers are hired via agent, all payroll records, attendance records and personal file must be available on-site for review. Therefore, HR management shall contact the agent and ensure there is a proper office set up for keeping these records, as well as access provided to monitors for transparency.

**Deadline Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. The factory was not employing part-time workers during the remediation visit. The factory had a hard time including the part-time workers in their iris attendance recording system. Factory will use the bundy clock/punch card in instances when part-time workers are employed. This time recording system will be used as the basis for payroll calculations and wage payment. The factory must ensure that all employment contracts of temporary workers are in accordance with Articles 67 and 73 of the Cambodia Labor Law.

adidas: In February, adidas SEA team visited the factory, and part-time workers are no longer being employed due to the reduction of orders. This issue has been addressed with management, however, with the assurance that when workers are hired via agent again, the records must be available. The factory has acknowledged this requirement. All of the payroll and attendance bonuses are available for review in the second floor office next to the production lines in the main building. In February 2009, SEA conducted random review of the records and conducted worker interviews. There was no finding on the employment of part-time workers available in the factory.

**Plan Complete:** No

**Plan Complete Date:** 01/30/2009

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**Wages, Benefits and Overtime Compensation: Worker Wage Awareness**

WBOT.22 Employers shall make every reasonable effort to ensure workers understand the wages, including the calculation of wages, incentives systems, benefits and bonuses they are entitled to in a factory and under applicable laws. To this end, employers shall communicate orally and in writing to all workers all relevant information in the local language or language(s) spoken by the workers, if different from the local language. (P)

**Noncompliance**

**Explanation:** Most workers do not know how to calculate the overtime rate. They do not know about their leave benefits, even though they were trained by HR during orientation.

**Plan Of Action:** Factory shall provide a short evaluation test after every training course in order to check the workers' understanding and retention of the training contents. Factory shall also post a list of benefits along with sample computations of wages, overtime and benefits on notice boards.

**Deadline Date:**

**Supplier CAP:** The company has conducted an orientation course for all new workers on the understanding of wages calculation and other benefits entitled to them.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. From the interview, most workers confirmed that they have received their wage and benefits correctly thus far. Interviewed workers understand the wage calculations and the leave benefits. Medical Certificate (MC) is required for sick leave; if workers will use annual leave they need to notify supervisor at least 1 day in advance. As required by law, the wage calculation is included in factory rules and regulations and the same is posted on bulletin boards.

adidas: SEA observed that HR has conducted training for workers, especially the new ones, to ensure they understand how to calculate OT. The workers interviewed noted that if they are confused about wage calculation, they can ask their shop steward. Most interviewed workers confirmed that they have received their wages and benefits correctly so far.

**Plan Complete:** No

**Plan Complete Date:** 01/31/2009

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### Wages, Benefits and Overtime Compensation: Posting Notices

WBOT.23 All notices that are legally required to be posted in the factory work areas shall be posted. All legally required documents, such as copies of legal code or law, shall be kept at the factory and available for inspection. (P)

#### Uncorroborated Evidence of Noncompliance

**Explanation:** Two part-time employees informed that they get paid 8,000 riels (\$2 USD) monthly in cash, with 1,000 riels for every hour of OT. Part-time employees do not get a meal allowance; their wages and benefits are neither equal nor the same as full-time employees.

**Plan Of Action:** Factory shall ensure all workers, regardless of the nature of employment, shall enjoy the minimum wage and allowances required by law. Other applicable benefits such as overtime shall also be provided in accordance with the law.

**Deadline Date:**

**Supplier CAP:** Full-time employees will be paid their meal allowance; part-time workers will receive their meal allowance through their agency. HR team to monitor the payment to part-time workers as part of the company's policy on hiring and compensation.

**Supplier CAP Date:**

**Action Taken:** [Puma: April 26, 2010 Update: Completed.](#)

[adidas:](#) In February, adidas SEA conducted a visit to interview employees; it appears that all of them have now received the meal allowance.

**Plan Complete:** Yes

**Plan Complete Date:** 01/30/2009

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

WBOT.27 All payments of wages and benefits in cash and in-kind made directly to the worker must be properly documented and their receipt and accuracy must be confirmed by the relevant worker in writing (signature, thumbprint, etc.). No one can receive wages on behalf of a worker, unless the worker concerned has, in full freedom, authorized in writing for another person to do so. (P)

#### **Noncompliance**

**Explanation:** Payroll records of part-time workers were not presented to the monitor for review during the assessment.

**Plan Of Action:**

1. The accounting department will work with HR to set up a system where the worker's signature is noted on the payroll once the money is paid. Deductions, apart from the union fee, are not allowed.
2. The receipt of wages shall be acknowledged by workers signing or affixing their thumb mark on the payroll or a separate document such as the file copy of the pay slip. The production manager to work with HR manager to develop proper communication that workers must be given 1 day of rest each week.

**Deadline Date:**

**Supplier CAP:** Factory has included all the names of all full-time and part-time employees for easy access. All the details can be reviewed in the HR meeting room as well as in the accounting room.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. The factory was not employing part-time workers during the remediation visit. The factory had a hard time including the part-time workers in their iris recording system. Factory will use the Bundy clock/punch card in instances when part-time workers are employed. This time recording system will be used as the basis for payroll calculations and wage payment. The factory was not employing temporary workers during the follow-up visit. The factory must ensure that all employment contracts of temporary workers are in accordance with Articles 67 and 73 of the Cambodia Labor Law.

adidas: The company has a list of part-time workers with individual wages and gets the workers to acknowledge the receipt of their individual wage by signing or affixing their finger print on the payroll.

**Plan Complete:** No

**Plan Complete Date:** 01/31/2009

### **Forced Labor: Employment Terms/Voluntary Agreement**

F.3 Employment terms shall be those to which the worker has voluntarily agreed, in as far as those terms do not fall below provisions of local laws, freely negotiated and valid collective bargaining agreements, or the FLA Code. (P)

#### **Uncorroborated Evidence of Noncompliance**

**Explanation:** A worker in the cutting section was told they would be transferred to the ironing section, despite having no experience in that section of the factory. This individual was told by management that if they didn't move, no OT would be assigned to them.

**Plan Of Action:**

1. Factory shall formulate a policy and guidelines on employee transfers and ensure there is valid reason for the transfer, and that it is not for the purpose of curtailing their rights. This transfer shall be discussed with the employee concerned and the union or worker's representative.
2. In this particular case, the factory shall explain to workers the need for such a transfer. The factory must assure workers that their wages and other benefits shall be maintained.

**Deadline**

**Date:**

**Action**

**Taken:**

Puma: April 26, 2010 Update: Pending. The factory will formulate policy and procedure about the transfer of workers to other work assignments, to ensure proper communication between workers and union. In addition, necessary trainings to all workers, supervisors and management will be conducted. The training shall include the orientation of workers to new work assignments and communicating policies about transfer of work assignments.

adidas:

1. The factory compliance team has been informed during the adidas SEA audit that the consent of workers is crucial. All the communications need improvement due to the essentials of the many unions presented in the factory.
2. The management has confirmed that they will ensure all movement of production positions will be done with both worker and union involvement.

**Plan**

**Complete:**

No

**Plan**

**Complete**

**Date:**

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## Forced Labor: Employment Records

F.9 Employers shall maintain sufficient hiring and employment records to demonstrate and verify compliance with this Code provision. (P)

### Noncompliance

**Explanation:** The factory employs part-time workers; no contract was provided to them.

**Plan Of Action:** Factory shall apply its hiring procedures and requirements to all workers regardless of the nature of their employment. Factory shall keep all employment records on file. The HR department is to work with the agency to ensure the recruitment of part-time workers follows that of the factory's full-time workers, documents (i.e., all the details records, personal files) should be kept on-site.

**Deadline Date:**

**Supplier CAP:** The HR recruitment department needs to set a specific policy demonstrating that the details of all employed workers are to be kept in individual files.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. According to factory representative, workers who will be employed temporarily will undergo the same application/recruitment procedure and requirements of the same application documents as normal workers. These documents will be kept on file including the contract that shall be signed.

**Additional Recommendation:** In case factory will employ part-time workers again through an agent, the agency will be treated as labor subcontractor and the factory needs to monitor the subcontractor in accordance with the code requirements. Employment of temporary workers shall only be allowed in jobs that are temporary in nature. The factory must ensure that all employment contracts of temporary workers are in accordance with Articles 67 and 73 of the Cambodia Labor Law.

adidas: adidas conducted an audit in February; the factory does not further employ part-time workers as of this year due to order reductions and the global economic recession which impacts orders from various brands. According to adidas Labor Standards, the factory needs to ensure that all employment of casual workers is in accordance with Workplace Standards. Recruitment details are to be kept on file and workers are to be provided with orientation materials; all the related documents should be kept on factory premises.

**Plan Complete:** No

**Plan Complete Date:** 02/11/2009

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### **Freedom of Association: Anti-Union Discrimination/Dismissal, Other Loss of Rights, and Blacklisting**

FOA.12 Employer shall not engage in any act of anti-union discrimination, i.e. shall not make any employment decisions which negatively affect a worker, based wholly or in part on a workers' union membership or participation in union activity, including the formation of a union, previous employment in a unionized facility, participation in CB efforts or in a legal strike. Employment decisions include: hiring; termination; job security; job assignment; wages; bonuses; allowances; compensation and benefits; promotion; downgrading; transfer; (vocational) training; discipline; and assignment of work and conditions of work. The use of blacklists used to contravene the exercise of the right to FOA also constitutes anti-union discrimination. (S)

#### **Uncorroborated Evidence of Noncompliance**

**Explanation:** Six union representatives complained that action taken by the factory's management team created distrust between workers and unions.

**Plan Of Action:** 1. Aside from the workers, managers and supervisors shall also attend the training on FOA to be provided by ILO. adidas SEA agrees that this is a major ongoing issue for the factory, as currently there are 15 unions representing workers. adidas SEA has decided to contact the ILO office and conduct Freedom of Association Training in Quarter 3 of 2009.

2. Progress of this action plan is to be monitored after ILO conducts the training, expected to be after Quarter 3.

**Deadline Date:**



**Supplier CAP:** The company will attend the FOA training to be conducted by ILO in Quarter 3 of 2009.

**Supplier CAP Date:**

**Action Taken:** [adidas](#): April 26, 2010 Update: Ongoing. Progress of this action plan is to be monitored after ILO conducts the training. Training on freedom of association to be conducted. The first training was conducted in February 2010. The planned Q3 2009 training was delayed because of the labor dispute/workers strike from September 2009 to January 2010. Succeeding ILO—BFC training to be scheduled.

**Plan Complete:** No

**Plan Complete Date:**

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## Freedom of Association: Other - Freedom of Association and Collective Bargaining

Other

### Noncompliance

**Explanation:** The consent form that called for a workers' wage reduction (1,000 reils to pay for union member fees), did not specify which union would receive the money.

**Plan Of Action:** 1. The factory needs to set up a system to ensure that wage deductions, such as those required by law or with written authorization from workers, including union dues, are remitted on time to the proper party such as the union or government agency.

2. Record of deductions and corresponding remittance must be kept on file.

**Deadline Date:**

**Supplier CAP:** All reductions are done through wages; it is documented on their pay slips with the summary amount paid to each union documented.

**Supplier CAP**

**Date:**

**Action**

**Taken:**

Puma: April 26, 2010 Update: Ongoing. All deductions are done through their wages and it is documented in their pay slip and the summary amount paid to each union is documented. Documentation of union dues transfer is inconsistent and needs improvement. The amount of union dues deducted from workers varies in the factory's various accounting records. The amount of money appearing on the receipt of the transfers to the union is less than the amount appearing on the records of detailed deductions from members of each union. The factory explained that the list of affiliated workers is not updated when affiliated workers leave the factory, and therefore the names of former workers continue to appear on the list. Total union dues deduction is reflected in the company payroll and there is a receipt of union dues transfer to individual union accounts. Also, a membership list of workers shows the total union dues that must be transferred to the union account. This issue of union dues documentation must be verified in the succeeding remediation visit.

adidas: adidas SEA team visited the factory and found the HR department responsible for recording the union fees. There are 15 unions in the factory. HR department also generates monthly report on the detailed amount; this report is also provided for the top-management review. Each month, payroll will have a column indicating "Union Fee". Upon joining the union, workers will sign the voluntary agreement confirming they pay 1,000 riels each month for its fees.

**Plan**

**Complete:**

No

**Plan**

**Complete**

**Date:**

02/11/2009

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## Harassment or Abuse: Discipline/Training of Management

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

### Noncompliance

**Explanation:** The manager and supervisor are not trained on disciplinary authority/practices, as no training records were found.

**Plan Of Action:** Factory shall provide training to all employees, including managers and supervisors, on the disciplinary system and corresponding procedures. Managers and supervisors shall be given special training on the applications of appropriate disciplinary measures and penalties. The HR manager will work with the ILO and adidas to provide "Supervisory Training" for the Chinese supervisors to ensure there are no cultural conflicts in the workplace. The factory has already developed the workplace disciplinary system, the main task of which is to ensure supervisors understand procedures correctly.

**Deadline Date:**

**Supplier CAP:** The company has sent 125 local and Chinese supervisors to attend the supervisory training courses conducted by ILO in 2008. The company will continue sending management and workers for relevant training.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Completed and ongoing training conducted by ILO and adidas. Additionally, in 2010, the Supervisory Training Project continues the rollout. This year, 75 supervisors have been trained by the ILO in February and April. The content of training focuses on how to communicate in the workplace as well as general disciplinary practice. New workers are also being provided the orientation on company policies, rules and regulations and Buyer's Code of Conduct upon employment.

adidas: The factory has informed adidas SEA that they conduct workplace communication training in order to ensure all the policies and procedures are aligning with the workers' manual. The factory workers interviewed indicated that they have been trained during orientation.

**Plan Complete:** No

**Plan Complete Date:** 02/11/2009

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**Code Awareness:**

GEN.1 Establish and articulate clear, written workplace standards. Formally convey those standards to Company factories as well as to licensees, contractors and suppliers.

**Noncompliance**

**Explanation:** There is no system for overseeing subcontractors.

**Plan Of Action:**

1. Factory shall formulate guidelines in the selection, approval and monitoring of subcontractors to ensure compliance with the code standards.
2. Factory shall assign a particular staff member to oversee subcontractors.
3. All subcontractors must be approved by the brands. The company will assign a particular staff member to monitor the subcontractors' work, which is approved by the buyers. Upon the next factory audit, the adidas SEA team is to review the documents and evidence of communication with the subcontractor company. There is a subcontractor being used as part of production. The factory has coordinated with management in order to review this printing company's compliance status.

**Deadline Date:** 02/27/2009

**Supplier CAP:** Supplier representative communicated the requirements of adidas SEA as well as ILO benchmarks to the subcontractor.

**Supplier CAP Date:**



**Action Taken:** [Puma](#): April 26, 2010 Update: Pending. The factory will formulate policies and procedures to monitor the subcontractors according to the code requirements. The factory is using a printing subcontractor located adjacent to their facility. The Puma SAFE audited this subcontractor last November 2009, accompanied by the compliance officer of the factory. A copy of the correction action request document is with the factory for their follow up. The factory also plans to use a labor agent subcontractor in case they will need to hire workers during the high production season again. Puma SAFE recommended to the factory to formulate monitoring policy and procedures for labor agent subcontractor, to ensure that it will comply with the code requirements, particular on non-employment of child labor, compensation and benefits, freedom of association, contract management, etc.

**Plan Complete:** No

**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:** Most workers are unaware of the factory's standards, policies and procedures. Most workers are also unaware of the brand's code of conduct, even though it has been translated in the local language and posted in accessible places.

**Plan Of Action:**

1. The workplace standards and applicable local law provisions shall form part of the orientation training for all incoming employees.
2. Factory shall provide a rebriefing on the workplace standards to all existing workers. adidas and Puma have been communicating the workplace requirements and ensure that workers are provided with regular training on the code of conduct. Workers should be retrained during the low production season; other systems and means of communication, (e.g., public announcements, notice board postings) should also be used to share this information through the unions.

**Deadline  
Date:**

**Supplier  
CAP:** The company has conducted orientation courses to educate all new workers on the details of workplace standards, Customs-Trade Partnership Against Terrorism (C-TPAT) requirements, factory rules and regulations, etc. Factory will retrain long-time employees during off-peak periods. HR department is to organize the schedule for yearly training plans.

**Supplier CAP  
Date:**

**Action Taken:** [Puma: April 26, 2010 Update: Completed.](#)

[adidas:](#) From workers' interviews, it was found they have been retrained on the code of conduct. It was also found that they understand how to call the adidas worker hotline numbers if they have any complaints or concerns; however, it was observed that most workers prefer to go to their union. adidas SEA identified the orientation details and worker handbooks which outline the details of compliance issues that workers need to be aware of. New workers will usually be trained in the first month of employment by HR staff. Once they have been trained, workers are asked to sign a document confirming their attendance; this document is kept in the employee's personal file.

**Plan Complete:** Yes

**Plan Complete Date:** 02/11/2009

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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:** [A number of fire extinguishers and fire hoses are blocked by cardboard during working hours.](#)

**Plan Of Action:**

- [1. Factory shall brief all employees on the safety requirements requiring clear access to all fire fighting equipment at all times.](#)
- [2. The team conducting the regular safety inspection include this item on its inspection checklist.](#)

**Deadline Date:**



**Supplier CAP:** [The factory has rearranged the layout of warehouses and production areas to ensure there is no blockage. The company compliance staff conducts internal audits regularly.](#)

**Supplier CAP  
Date:**

**Action Taken:** [Puma: April 26, 2010 Update: Completed.](#)

[adidas: The factory has rearranged the layout of warehouses and production areas to ensure there is no blockage. Three safety officers conduct internal audits regularly.](#)

**Plan Complete:** [Yes](#)

**Plan Complete  
Date:** [02/11/2009](#)

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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:** 1. The workers in the cleaning and finishing section did not wear PPE during work, even though the facility provided the necessary PPE (e.g., latex gloves, goggles, respirators).

2. It was observed that a number of workers in the embroidery section did not wear earplugs during working hours.

**Plan Of Action:** 1. Workers must be provided training on the importance and proper use of protective equipment.

2. Supervisors shall monitor to ensure that workers use protective equipment consistently and properly.

**Deadline Date:** 01/23/2009

**Supplier CAP:** In the yearly training plan, PPE requirement has been included as part of communication to the workers.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Not applicable for spot cleaning. There is a spot cleaning room, but the factory stopped using it because the procedure now is just to remove the stained garment at the cutting area. Ear plugs have been provided in the embroidery section and all workers were seen wearing them during the site inspection.

adidas: SEA has reviewed the training conducted and planned by the factory safety team in early 2009. It was found PPE training has been provided to workers working with chemicals. Ongoing review will be carried out.

**Plan Complete:** No

**Plan** 02/27/2009

**Complete**

**Date:**

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### **Health and Safety: Chemical Management and Training**

H&S.13 All chemicals and hazardous substances shall be properly labeled and stored in accordance with applicable laws. Labels shall be placed in the local language and the language(s) spoken by workers, if different from the local language. Workers shall receive training, appropriate to their job responsibilities, concerning the hazards, risks and the safe use of chemicals and other hazardous substances. (S)

#### **Noncompliance**

**Explanation:** No eyewash equipment was provided in areas using chemicals, such as spot cleaning on the 3rd floor of the sewing building.

**Plan Of Action:** The factory shall install an additional eyewash on the 1st floor of the Chemical Washing Section. Evaluation by the safety team is to be carried out to ensure workers are able to access the eyewash facility within 30 meters of where chemicals are being used.

**Deadline Date:** 01/30/2009

**Supplier CAP:** The factory is purchasing 2 more eyewash facilities; the units have been imported and are waiting to be cleared by customs.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Completed. The eyewash was installed in the spot cleaning area, but the factory has already stopped using the spot cleaning process for stained garments. Stained garments are removed from WIP from the cutting section.

adidas: SEA visit in February 2009 revealed that the factory is in the process of installing the eyewash facilities. Order to purchase has been placed.

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

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

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

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

**Noncompliance**

**Explanation:** No operating or safety instructions are posted in the area where the boiler is operated.

**Plan Of**            Factory shall post safety operating procedures for the boiler in the boiler room. Safety  
**Action:**            office to develop an operating procedure, including the name of the responsible person, emergency phone number of the nearest fire station, as well as what to do in case of emergency.

**Deadline**        01/23/2009  
**Date:**

**Supplier**         The company has posted the safety operating procedures for the boiler in the boiler  
**CAP:**             room.

**Supplier CAP**  
**Date:**

**Action Taken:** [Puma](#): April 26, 2010 Update: Pending. The factory needs to include in the SOP where chemical is used and it should also mention MSDS as reference to the chemical. Emergency procedure is also not clear. The emergency procedure at the boiler area does not include all the emergency risks associated with the operation of the boiler. For example, emergencies related to accidents involving the chemicals, improper operation of the boiler, etc. It was discussed with the factory to formulate emergency procedures based on the risk when there is a failure to follow the standard safety operating procedure. This includes emergencies related to the mishandling of chemicals, fuel oil and normal boiler operations as to any mechanical or electrical accidents.

[adidas](#): The posting of operating procedures for the boiler is complete.

**Plan Complete:** No

**Plan Complete Date:** 01/29/2010

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## Health and Safety: Proper Use of Machinery

H&S.19 Employers shall only use positive incentives (risk awareness training, demonstration of proper use, awards, bonuses, etc.) to ensure workers use machinery, equipment and tools properly and safely. Workers shall not suffer any negative consequences for refusing to work with machinery, equipment or tools that are not properly guarded or reasonably considered unsafe. (P)

### Noncompliance

**Explanation:** Some sewing machines were missing needle guards.

**Plan Of Action:** Factory shall install missing needle guards and arrange a schedule for regular machine inspection and maintenance. The company will ensure all machines are regularly inspected and that missing needle guards are replaced on time. The internal safety team will conduct monthly audits and provide action plans to the mechanics department to replace any missing needle guards.

**Deadline Date:** 01/30/2009

**Supplier CAP:** Workers are also informed to speak to their supervisor about when these replacements are made.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Ongoing. During the walkthrough at the sewing area, no flat-lock machines were seen with needle guards. However, some needle guards were lifted or disabled by operators. The factory will continue with the training to educate workers more about the use of needle guards.

adidas: adidas SEA observed that most of the machines are equipped with needle guards. Some workers still do not understand the reasons to ensure the usage. As a result, further communication with the workers is necessary.

**Plan Complete:** No

**Plan Complete Date:**

## 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:**
1. Chairs provided to production line workers do not have seat backs.
  2. No floor mats provided to ironing section workers where they have to stand on a regular basis.
  3. It was observed in the ironing section that workers cannot sit, as there is no chair provided near the workstation for them when needed.

- Plan Of Action:**
1. adidas SEA workplace standards encourage the factory to provide adequate back supports for all chair or seats as part of the best practice. A meeting with all the suppliers has communicated this as part of upgrading the work environment. However, due to the layout of some factories, it may not be possible to provide all of the workers with back rests. In adidas guidelines, it is recommended the factory give a regular break to workers for 10 minutes every hour. Optionally, workers can be encouraged to frequently change positions to avoid being locked into one position for an extended period of time.
  2. Provide floor mats for ironing workers to protect them from electric shocks.
  3. Provide chairs near the working area for the occasional rest of workers who stand for long hours.

**Deadline Date:** 07/31/2009

**Action Taken:** Puma: April 26, 2010 Update: Pending. The company is still studying the more ergonomically appropriate way of fixing back support for workers' seats. A) Floor mat provided, B) Chairs/bench are provided for ironing workers to rest.

adidas: As of February, the factory has not provided any clear feedback on providing back support for workers. SEA to verify further upon the next visit for the progress.

**Plan Complete:** No

**Plan  
Complete  
Date:**

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### **Health and Safety: Medical Facilities**

H&S.21 Medical facilities shall be established and maintained in factories as required by applicable laws. Medical staff shall be fully licensed and recognized under applicable local rules and regulations. An appropriate number of medical staff shall be on duty during all working hours, including any type of overtime, as required under local law. An appropriate stock of medical supplies shall be maintained at all times. Medicines of which the expiration date has passed must be replaced immediately and disposed of in a safe manner. (P)

#### **Noncompliance**

**Explanation:** 1. The number of on-site nurses is not sufficient. As of now, the facility only has 2 nurses, with 1 doctor, 4 hours a day for 4,000 workers. It is recommended that there be 2 nurses for more than 2,000 workers, with 1 doctor present for at least 8 hours during working hours.

2. No policy and procedure on dealing and handling of clinical waste. The disposal of clinical waste is not separated from the domestic disposal.

**Plan Of Action:** Factory shall assess the sufficiency of its existing medical personnel and comply with the legal requirements regarding the number of medical staff and their corresponding hours of work during days of operation. According to Cambodia law- Prakas 330/00 Article 3, it states that the factory needs to provide 3 nurses on duty and 1 doctor for more than 200 workers. Factory shall formulate guidelines and procedures in the handling and disposal of clinic waste, which shall be separate from the factory's domestic waste. As a result, the factory should ensure that a sufficient number of nurses and doctors are available according to the law.

**Deadline Date:** 03/31/2009

**Supplier CAP:**

1. The factory is in the process of getting an approval from headquarters regarding additional budgets, to see if they can hire 1 more nurse; after that, HR will contact a local hospital to follow up on the hiring of an additional nurse.
2. The company will set up a disposal bin to separate infirmery disposal from domestic disposal.

**Supplier CAP  
Date:**

**Action Taken:** Puma: April 26, 3010 Update: Pending.

1. Factory now employs 1 doctor and 3 nurses.
2. Factory formulated a hazardous waste disposal policy but is still looking for service providers to properly dispose of this type of waste.

adidas:

1. As of February 2009, adidas SEA conducted a visit and found that there are still 2 nurses and 1 doctor on-site; however, management has informed SEA they are still in process of employing another nurse. From the observation, the clinic does not have a lot of congestion during that time and there are separate waiting rooms outside. adidas SEA to follow up again the next visit, to check if an additional nurse is employed later this year. The increase in number of nurses is to be followed up further with the factory.
2. The clinic waste management system has been implemented.

**Plan Complete:** No

**Plan Complete  
Date:**

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## Health and Safety: Toilets

H&S.23 Employers shall establish the number of toilets required under applicable laws within reasonable distance of the workplace. (S)

### Noncompliance

**Explanation:** Insufficient number of toilets (western style) provided in the facility. There are total of 134 units. 26 more western style toilets are needed.

**Plan Of Action:** Factory shall install more western style toilets at every toilet area for the use of pregnant workers. adidas has no requirement on how many eastern or western style toilets, as it was found that workers are more familiar with the eastern style than the western style. In Cambodia Law, according to ILO booklet, there is a requirement that “any enterprise with more than 100 women employees must have a western style toilet for every 50 women.”

**Deadline Date:**

**Action Taken:** Puma: April 26, 2010 Update: Pending. Factory has installed 5 types of this toilet and still plans to add additional 21 more that were required.

adidas: SEA needs to contact the factory to ensure western style toilets are provided.

**Plan Complete:** No

**Plan Complete Date:**

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## Health and Safety: Other - Health and Safety

Other

### Noncompliance

**Explanation:** The forklift drivers are not trained. The staff did not wear PPE, such as helmets or safety shoes.

**Plan Of Action:**

1. Forklift drivers and all those operating special or heavy machines must be provided training on how to use and operate machinery.
2. They shall also be provided with PPE to prevent against hazards involving machine use or location. Human Resource department is to work with the agency and ensure that the recruitment procedure of part-time workers is the same as that for full-time workers (e.g., all records, personal files should be kept on-site).

**Deadline Date:** 01/30/2009

**Supplier CAP:** In January, the factory conducted forklift training and set up a safety policy for the drivers. Helmets have been provided.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Pending. The factory will be conducting training for forklift drivers SOP. Timeline- 1 month.

adidas: adidas SEA visited the factory and reviewed the safety procedure of the forklift operation.

**Plan Complete:** No

**Plan Complete Date:** 02/23/2009

### Hours of Work: Rest Day

HOW.2 Workers shall be entitled to at least one day off in every seven-day period. If workers must work on a rest day, an alternative day off must be provided within that same seven-day period or immediately following the seven-day period. (P)

#### Noncompliance

**Explanation:** Based on the written records of production in ironing section revealed that 7<sup>th</sup> day work was conducted on the following dates:

April 6, 2008

May 4, 8, 15, 22 and 29, 2008

June 6, 13

July 3, 10, 17, 24, 2008

September 14, 2008

October 5, 12 and 26, 2008

November 2, 16 and 30, 2008

December 7, 14 2008.

These records were separated and written by the supervisor. Thus, workers were not entitled for a day off in every 7 day period.

**Plan Of Action:** 1. Factory shall ensure that workers are provided a rest day during each week; if workers must work on a rest day, the factory shall arrange a compensating rest day within the following week at the latest.

2. Factory shall also determine the causes for having to work on a rest day and implement measures to correct them.

#### Deadline

**Date:**

**Supplier CAP:** The company has stopped 7<sup>th</sup> day working and cut down OT substantially since January 2009.

#### Supplier CAP

**Date:**



**Action Taken:** [Puma](#): April 26, 2010 Update: Ongoing. No Sunday work was found from January to March 2010. Although factory strictly intends to comply with this code requirement, they also admit that during unavoidable circumstances (e.g., urgent requirement to meet product shipment), they might have to work on a Sunday. Nevertheless, the elimination of Sunday or rest day work must be included in the Continuous Improvement Program of the factory. The factory should include in its policies the provision of compensating rest day, in case there is work on a Sunday.

[adidas](#): As of February, January and February 2009 payrolls reveal that due to fewer orders, there are no longer excessive overtimes.

**Plan Complete:** No

**Plan Complete Date:** 02/11/2009

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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:** No time cards for part-time workers were maintained or presented for review.

**Plan Of Action:** 1. Attendance records of all workers, regardless of nature of employment or compensation scheme, must be kept by the factory. There shall only be one set of attendance records, which should contain all hours and days worked by each worker and shall be the basis for wage computation and payroll preparation.

2. Management shall remind production staff that such practice of keeping more than one set of attendance records or not recording other worked days or hours is not allowed as a policy of the factory. The factory must ensure that all the working hours are recorded in one accounting system, no handwritten records or double bookkeeping is allowed. When part-time workers come to work during a day of rest or additional overtime, their attendance time must be record via electronic card and thus be linked to the payroll system.

**Deadline Date:** 01/30/2009

**Supplier CAP:** The accounting department to coordinate with the production team to ensure all workers that requested additional overtime are included in the payroll system.

**Supplier CAP Date:**

**Action Taken:** [Puma](#): April 26, 2010 Update: Ongoing. The factory was not employing part-time workers during the remediation visit. The factory had a hard time including the part-time workers in their iris attendance recording system. Factory will use the bundy clock/punch card in instances when part-time workers are employed. This time recording system will be used as the basis for payroll calculations and wage payment. The factory must ensure that all employment contracts of temporary workers are in accordance with Articles 67 and 73 of the Cambodia Labor Law.

[adidas](#): As of February 2009, adidas SEA visited the factory and reviewed the records. It was found that workers are no longer working over 60 hours per week due to order reduction. Moreover, random audits in the payroll department reveal that the factory keeps all the attendance records in a computerized system. Records are now available for review.

**Plan Complete:** No

**Plan Complete Date:** 02/23/2009

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### **Hours of Work: Extraordinary Business Circumstance/Forced Labor**

HOW.11 In case of extraordinary business circumstances, employers shall make reasonable efforts to secure voluntary overtime work prior to mandating involuntary overtime. Employers must get workers voluntary consent periodically for all overtime that is above the 12 hours as provided for in the Code and that is not due to extraordinary business circumstances. (P)

#### **Uncorroborated Evidence of Noncompliance**

**Explanation:** 1. There is no evidence to support the excessive OT; according to FLA benchmark, since the facility was suspected of having OT in excess of 60 hours with a separate OT records keeping system, therefore, a number of workers reported that sometimes they have worked OT in excess of 12 hours, but with no objective evidence or proof.

2. Sunday work was reflected in a handwritten production record in the ironing department. The facility presented the attendance and payroll records, which are separate from the formal records, thus, double records of payroll and attendance were kept and maintained on-site.

**Plan Of Action:** 1. Factory shall determine the factors causing the excessive overtime and formulate an action plan to correct them and thus reduce overtime.

2. Management shall remind production staff that the practices of keeping more than one set of attendance records and not recording other worked days or hours are not allowed.

**Deadline  
Date:**

**Action Taken:** Puma: April 26, 2010 Update: Hours of work in the factory are less as it is undergoing downsizing. In some lines, overtime is about 6 hours a week only. The sewing lines were planned to be reduced to 60% of current capacity. Part of the orders transferred to their other two factories, located about 15 kilometers away. All Puma orders are now being done in one of those two facilities. Continuous Improvement Program (CIP) and LEAN operations are being implemented in those two new facilities. Overtime is highly regarded as an unnecessary cost and therefore being avoided as part of CIP and LEAN. However, the planned downsizing is being hampered because workers don't want to be transferred, which resulted in a strike/labor dispute from September 2009 to January 2010.

adidas: According to SEA audit in November 2009, this finding has already been raised and factory management had been informed by adidas SEA to stop the practice of recording a separate overtime payroll from the normal bookkeeping systems. Going forward, additional overtime can be performed under "unusual circumstance," where uncontrollable work caused the factory to work more than 60 hours per week. The company has stopped working on Sundays and has cut down OT substantially since January 2009. Due to the economic crisis, there has been a reduction order from all the customers since the beginning of 2008. As a result, the company has cut down overtime hours, including Sunday.

**Plan Complete:** No

**Plan Complete Date:** 02/11/2009

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### Hours of Work: Sick Leave/Restrictions

HOW.20 Employers shall not impose any undue restrictions on sick leave. Any factory restrictions or procedures regarding sick leave, such as informing the employer as soon as possible, the provision of medical certificates, the use of designated doctors or hospitals, etc., must be in line with local laws, regulations and procedures and must be communicated in full to all workers. (S)

#### Uncorroborated Evidence of Noncompliance

**Explanation:** During worker interviews, we were informed that the facility has changed the policy of granting sick leave wherein the workers have to seek permission from their supervisors one day in advance. The workers call the union representative, but that becomes an absent day with no compensation. Thus, it is difficult to take the sick leave and get compensation; it is the same with the daily workers.

**Plan Of Action:** Factory shall formulate clear policies and guidelines regarding paid sick leave in accordance with legal requirements. Managers and supervisors shall allow workers following the policies and guidelines to use sick leave.

**Deadline Date:**

**Supplier CAP:** HR department to ensure workers, managers and supervisors understand the leave process. In the company regulations, it is stated that workers can take sick leave and then come back to submit their leave form. Therefore, the finding might arise from a misunderstanding of a particular worker. All workers are entitled to sick leave and all sick leaves have to be approved by their immediate supervisors and endorsed by the managers before compensation can be effective. HR to include the communication of the leave policy in the monthly meeting with the union as well as on the PA system, to ensure workers clearly understand the process. In cases where workers are not allowed to take leave or have deducted wages, workers can report this to the HR or the union.

**Supplier CAP Date:**

**Action Taken:** Puma: April 26, 2010 Update: Completed.

adidas: According to the discussion with the clinic nurse, from January, most of the requests for sick leave were approved. Additionally, 60% of leave applications were submitted by the union representatives. adidas also informed the factory HR management that the workers must be responsible for requesting their own leave.

**Plan Complete:** No



**Plan**            02/11/2009  
**Complete**  
**Date:**

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