



INDEPENDENT EXTERNAL ASSESSMENT

Worker Survey
& Management Self-Assessment Report

COMPANY: American Eagle Outfitters

COUNTRY: China

FACTORY CODE: GS201201

SURVEY DATE: October 12, 2012

PRODUCTS: Apparel

TOTAL NUMBER OF WORKERS: 972

NUMBER OF WORKERS SURVEYED: 143

FLA Comment: American Eagle Outfitters, Inc. ceased affiliation with FLA at the end of 2013. Therefore, the company will not be reporting to FLA on the remedial efforts regarding issues identified in this report.

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EXECUTIVE SUMMARY

Fair Labor Association (FLA) conducted an Independent External Assessment in a factory in China, a supplier of American Eagle, on October 12, 2012. The assessment evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment lifecycle of workers. The assessment includes a Worker Survey and a Management Self-Assessment. A total of 143 workers were randomly selected to anonymously participate in the survey. Management was also requested to complete an online self-assessment and to submit several documents for review. Comparing results from both sources enriches our understanding of the factory's overall management system and may point to possible root causes of system weaknesses in need of improvement.

Key Findings

- Close to half of surveyed workers declare that the factory performs searches for security reasons; some workers report that body searches, without any security reasons, occur as a daily practice in this factory.
- There is no worker representative body in this factory and communication gaps are found to exist in Compensation, Hours of Work, Industrial Relations, Workplace Conduct, and Grievance System.
- The factory has well-defined policies and procedures in place and delivers the orientation training to the general workforce; however, some significant topics and information are not fully communicated to all workers through the training, such as worker participation and grievance procedures.

I. INTRODUCTION

Fair Labor Association (FLA) conducted an Independent External Assessment in a factory in China, a supplier of American Eagle, on October 12, 2012. The assessment evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment lifecycle, covering all aspects of a worker's relationship with the facility, from their date of hire to the end of their employment.

The assessment comprises a Worker Survey and a Management Self-Assessment. Findings from both the Worker Survey and the Management Self-Assessment help to 1) provide a broad picture of the current conditions and 2) identify areas of good performance as well as weakness.

Worker Survey

At the time of the survey, there were 972 production-related workers at the factory, 143 of whom were randomly selected to participate in the survey¹. To protect the anonymity of respondents, workers were asked not to fill in their names on the questionnaire. Table 1 summarizes the basic characteristics of the surveyed workers².

Table 1 Characteristics of Surveyed Workers			
		(%)	(%)
Gender		Migrant or Local	
Male	49.7	Local	2.8
Female	50.3	Migrant	97.2
Education		Position	
No Schooling	4.2	Worker	89.5
Primary School	30.8	Supervisor	9.8
Middle School	55.9	Employment Status	
High School	8.4	Fixed/Long-term Contract	99.3
Technical/Vocational School	0.7	Contractor/Dispatched Worker	/
College/University	/	Intern/Temporary	/
Average Age (Years)	36.2	Average Length of Service (Months)	65.9

Management Self-Assessment

Factory management was also requested to complete an online Management Self-Assessment and to submit some documents for review³; this assessment is structured in line with the Worker Survey and aims to assess performance from management's point of view. Comparing results

¹ Sample size was based on (+/-) 7.5% error range, at 95% confidence level. The total workforce of the factory is 1,072, 972 of whom are production-related frontline workers. Thus, the sample selection is based on frontline workers.

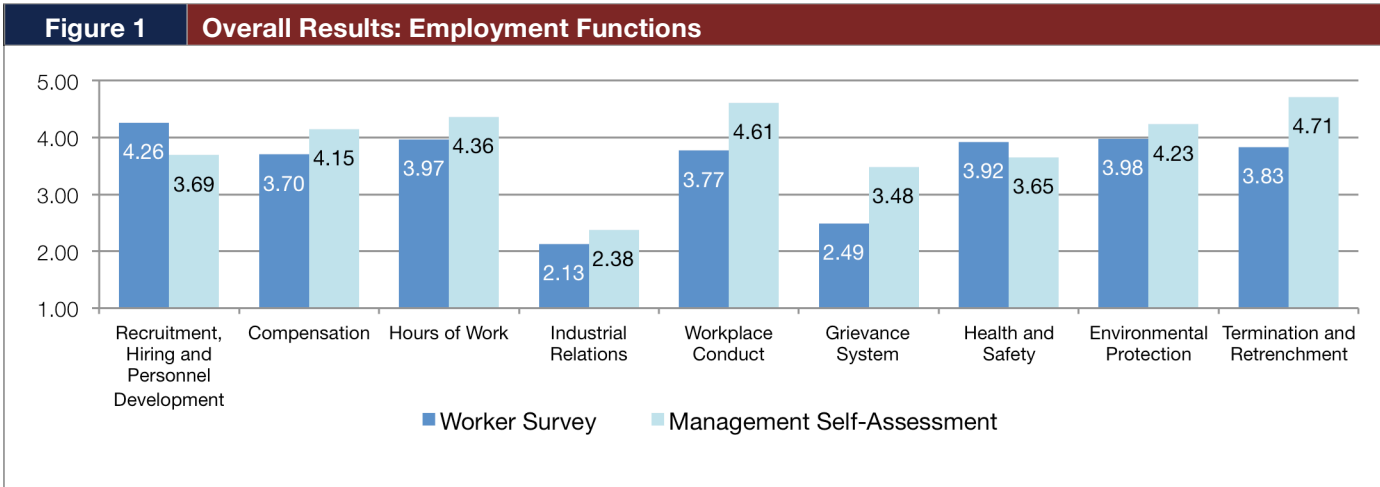
² Table 1 shows the basic characteristics of the workers participating in the survey. Numbers may not always add up to 100% due to unanswered questions.

³ The assessors reviewed some documents on the same day of the worker survey. The reviewed documents include: factory's existing policy and procedures; training records; payroll and pay slips; records of working hours; meeting minutes; filed grievances; and other relevant documents.

from both sources enriches our understanding of the factory’s overall management system, by showing how it is viewed from both the factory floor and the management office.

II. KEY FINDINGS

The Independent External Assessment evaluates the impact of a factory’s practices on a worker’s lifecycle, from hiring, through workplace conduct and grievance procedure, all the way to termination and retrenchment. It examines the whole process, aspects of which are referred to as “Employment Functions:” 1) Recruitment, Hiring & Personnel Development; 2) Compensation; 3) Hours of Work; 4) Industrial Relations; 5) Workplace Conduct; 6) Grievance System; 7)



Environmental Protection; 8) Health & Safety; and 9) Termination & Retrenchment. Each employment function is measured on a scale from 1 to 5. A score below 3 indicates substantive problems; a score between 3 and 4 shows both positive achievements and room for improvement; and a score above 4 suggests a notable performance.

Figure 1 displays the results from both the Worker Survey and the Management Self-Assessment with respect to each Employment Function. Workers give Recruitment, Hiring & Personnel Development the highest score, while management give Termination & Retrenchment the highest score. Among the aspects that score relatively low, both groups agree that the Industrial Relations aspect needs improvement, both giving it a score lower than 3. Grievance System and Workplace Conduct also require more attention, as there are obvious gaps in perception between management and workers. A wide range of difference in perception between management and workers may point to possible root causes of system weaknesses in need of improvement. Detailed analysis on each dimension will be elaborated upon in the sections to come.

2.1 Recruitment, Hiring & Personnel Development

This employment function covers the hiring process and procedure, investigating their implementation within the factory. **The Management Self-Assessment and Document Review show that the factory has detailed policy and procedures regulating recruitment, which are in accordance with the existing national laws.** This is in line with the Worker Survey results, as all of the workers have signed an employment contract with the factory and 99% of them have a copy of their contract. Besides, most participants have received orientation training (88%) and on-

the-job training (91 %). Management explains that wages and benefits; working hours; social insurance; legal leaves and holidays; working quota; vocational injuries; termination and performance rewards have been covered in the induction training. In addition, 73% of workers indicate that the factory reviews workers’ job performance, among them, and 80% have received feedback from management.

However, there is still some room for improvement. According to the Worker Survey, a majority of workers are not aware of the factory’s regulations regarding worker participation (82%) and grievance procedure (60%). This may be partly explained by the deficient training content, as workers reveal that the topics covered in orientation training do not include a) worker participation in workplace issues and labor relations (89%), b) grievance procedure and channels (80%), or c) workplace conduct (68%). As training has a positive impact on workers’ knowledge of factory policies, it is suggested that the factory review the training content and make sure that relevant policies and procedures are well delivered to all workers.

2.2 Compensation

Compensation examines the wage and benefits system within a factory, whether it complies with regulatory standards and if it ensures fairness and productivity. Management reports that the basic wage for all workers meets the local legal minimum wage (Table 2). With regard to the payment of wages, **Management Self-Assessment reports that the factory managed to pay workers on time and in full over the last 12 months, results consistent with the Worker Survey.** Almost all (97%) workers indicate no underpayment of their salary; likewise, 87% of respondents claim no delays⁴. Document Review shows that the wages are calculated at a piece rate. The main components of workers’ wages are basic salary, piece rate salary, monthly allowance, and social insurance⁵.

Table 2	Monthly Salary (RMB)
Legal Local Minimum Wage	1,100
Basic Salary Offered*	1,100
Average Monthly Salary*	2,936 (Net)
* Source: Management Self-Assessment & Worker Survey	

Regarding overtime pay, management reports that overtime compensation is always paid to workers, with differentiated rates between weekdays, weekends, and holidays⁶. This is in line with Worker Survey results, as 92% of participants claim that overtime hours are always or mostly compensated, whereas the rest are partially paid. Among those who have received overtime payment, a vast majority (89%) states that it is paid at a premium rate⁷. On top of the basic salary, the factory also offers 1) several kinds of leave including

⁴ 11% of participants answer that they have experienced delays once or twice, and another 2% answer that there have often been delays in wage payments.

⁵ The social insurance includes medical insurance and vocational injury insurance; 87% of workers are covered by the insurance system.

⁶ The premium rate for overtime during weekdays is 150% of the regular hour rate; for rest days, workers’ overtime hours should be compensated at 200% of the regular rate; and for statutory holidays, workers should be paid 300% of their regular hour rate.

⁷ 7% respond overtime hours were paid the same as regular hours, 4% did not know.

annual leave, public holidays, sick leave, marriage leave, and maternity leave⁸ and 2) as free/subsidized meals and accommodation⁹, which are verified in the Worker Survey. Moreover, 87% of those who get legally entitled leave respond that leave is fully paid.

While management states that the factory's wage levels are absolutely sufficient to cover workers' basic living expenses in terms of food, accommodation, health care, education, and clothing, over half (62%) of workers think that their wages only partially meet their basic needs. Notably, up to 75% are unable to have their dependents' education covered and 55% cannot have their health care covered by their wages.

With respect to bonuses, Management Self-Assessment results show that, except for the seniority bonus, bonuses, including those related to attendance, team performance, and year's end are not provided at all. However, workers appear to be unclear about the variety of bonuses, as more than two-thirds (69%) of workers answered that there is a year-end bonus, and 26% report the existence of an attendance bonus. Although the Document Review shows that wage-related issues are covered in orientation training, more efforts are advised, to make sure that workers are sufficiently informed of the factory's wage and benefits' policies.

2.3 Hours of Work

This section looks into the factory's working hours management system and its daily practices. Management reports that the peak season is from March to December, when workers work a maximum of 10 hours a day and 6 days a week. The total working hours, including overtime, do not exceed 60 hours per week during peak season. During the off-peak season, working hours are 8 – 10 hours per day and 6 days a week. To some extent, this information is consistent with the Worker Survey results, as 99% of workers report that the weekly working hours are 8 – 10 hours a day in the off-peak season¹⁰. When the factory is particularly busy, 80% of workers state they work 10 hours a day, with another 8% answering that they work 11 – 12 hours a day. As to why, on occasion, workers need to work longer hours, several times buyers 1) changed their styles after placing their orders or 2) made an untimely increase in ordered quantities in the past 12 months. In order to optimize the hours of work system, the factory is advised to reduce the risk factors related to buyers and to make their production plan according to the production capacity.

Management reports that all workers are well informed of their entitled right to reject overtime work. This is to some extent contrary to the Worker Survey results, as a considerable amount (18%) of workers report that they are not informed of their right to refuse overtime work without any negative consequences. Furthermore, both the Management Self-Assessment and the Worker Survey reveal that the sudden notice of overtime exists in this factory, as close to half (47%) of workers are notified of overtime on the afternoon of the same day. Weighing these findings, a communication gap may exist between management and workers. The factory is advised to

⁸ Most workers report that the factory provides annual leave (98%), public holidays (81%), sick leave (76%), marriage leave (90%), and maternity leave (86%).

⁹ 91% of workers have received subsidized accommodation and 72% have received subsidized meals.

¹⁰ 50% of workers work 8 hours per day, 5% work 9 hours a day, and 44% work 10 hours a day.

enhance the two-way communication and to ensure all workers have a clear knowledge of their entitled rights.

2.4 Industrial Relations

The Industrial Relations dimension examines the relationship between management and workers, focusing on communication, representation, consultation, and participation. Both Management Self-Assessment and Worker Survey scores are lower than 3, indicating an urgent need for improvements in this dimension. According to management and the majority of workers (76%), **there is no trade union or any kind of worker representative system in the factory**. Likewise, the Management Self-Assessment reflects that there are no policies and procedures related to worker participation in this factory. The lack of a representation mechanism and relevant policies on worker participation may lead to the marginal position of workers in the decision-making process. On the basis of the Worker Survey, 39% of participants report that workers or worker representatives are never involved in the discussion of work- or worker-related issues¹¹. Besides, less than one-third (27%)¹² of workers believe that management takes workers' suggestions into account, which also helps to generate the low level of worker participation.

These findings suggest that there are systematic problems regarding Industrial Relations. As trade unions and worker representatives are significant channels for workers to raise their concerns, it is strongly advised for the factory to 1) establish a worker representative system and to communicate with workers on its functions and 2) encourage workers to join in the factory's management issues and for management to value their insights.

2.5 Workplace Conduct

Workplace Conduct gathers knowledge on the rules and regulations that govern what is and what is not acceptable behavior among staff and workers at the factory. It probes the factory's practices with respect to harassment, abuse, discipline, security checks, and workers' freedom of movement. Almost all workers report that they have not experienced any form of harassment and abuse (98%) or discrimination (96%). Most respondents claim they have free access to water (99%) and toilets (92%). However, some improvements are still needed in this regard.

As Figure 1 displays, there is a wide gap between the perceptions of workers and management. The Management Self-Assessment indicates that the factory has policies in place with regard to harassment and abuse; discrimination; and discipline; however, nearly two-thirds (62%) of participants are not aware of these regulations. This raises 2 possible issues, 1) the policies are not well communicated to every worker and 2) as previously mentioned in section 2.1, workers' training on Workplace Conduct is not sufficient.

¹¹ The topics of discussion include production targets; shift arrangements; overtime arrangement; work conditions; logistics management; disciplinary regulations; wages; bonuses and allowances; grievance receiving and handling; health and safety practices; and after-work collective activities.

¹² 31% think that management will take into account the suggestions "to some extent," 31% select "to a limited extent," and 8% think the management will not take workers' opinions into account at all.

In addition, although management denies that they perform any kind of search, close to half of workers (45%) report that the factory performs searches for security reasons. Nearly one-third (29%) of respondents who have experienced security searches think that they are not always reasonable. **Among those who claim that the factory performs searches, 11% report that body searches exist when there is legitimate reason, another 6% report that body searches are a daily practice¹³.** On top of searches for security reasons, the practice of daily body searches suggests risk of infraction of FLA benchmarks¹⁴; therefore, in order to maintain a relaxed work climate and to make sure that workers' dignity is respected, actions should be taken by the factory to ensure that all the implementations are proper and legal.

2.6 Grievance System

Grievance System examines a factory's systems, policies, and practices on 1) workers' ability to voice their opinions and complaints; 2) workers' ability to communicate with management on issues affecting their work and workplace environment; and 3) the factory's ability to understand and address these issues, while also taking action to prevent similar problems in the future.

Management Self-Assessment results show that the factory has several grievance channels¹⁵ for workers to file complaints; however, nearly one-third (31%) of workers are not aware of the existence of the specialized grievance procedures. This may be a result of insufficient communication, as the Document Review found that grievance channel policy and procedures are delivered to workers orally, mainly through co-workers. In addition, more than half (55%) of workers indicate that there is no policy in place to protect workers from retaliation by management if workers lodge a grievance; this coincides with Document Review results, as no relevant policies can be found in this regard.

Of those who know the grievance system, 59% of participants have never used the channels when they have concerns; only 16% of respondents have used the channels to express dissatisfaction once or more than once¹⁶. Among those who have filed complaints or concerns, 42% talked to their line supervisors, and 33% posted a letter to the suggestion/complaint box. Workers' complaints mainly focus on canteen food (48%); wages and benefits (35%); and problems with supervisors (22%). The Management Self-Assessment reflects that the factory received 8 grievances in the last 12 months and that all problems are addressed. On the other side, a majority (87%) of workers who submitted complaints claim that their problems were followed up on and 70% received feedback. Moreover, 95% of those who filed grievances are "absolutely" or "mostly" satisfied with how they were handled.

¹³ In the Worker Survey progress, 1 worker indicates that the factory sometimes performs searches in their dormitory.

¹⁴ H/A 10.1: Searching of bags and other personal items to prevent theft is acceptable; H/A 10.2: Body searches and physical pat downs shall only be undertaken when there is a legitimate reason to do so and upon consent of workers, unless a state official with the power to do so (e.g. police officer) has ordered the search.

¹⁵ According to management, workers can file complaints or express concerns/problems through 1) suggestion/complaint box, 2) line supervisors/section leaders, 3) department manager, 4) HR staff, and 5) General Manager.

¹⁶ 25% of workers report they have no concerns or problems.

As mentioned earlier in section 2.4, no worker representative is involved in the follow up of grievance procedures. Therefore, the factory is advised to take necessary measures accordingly to 1) emphasize the policy of non-retaliation to every worker to dispel their worries about the negative outcome of grievances and 2) improve the level of worker participation in the grievance system and to encourage workers to express their concerns.

2.7 Health & Safety

This section explores the extent to which the factory ensures a healthy and safe work environment. As shown in Figure 1, **this regard has been given a relatively high score in all dimensions of the Worker Survey, suggesting that workers are generally satisfied with the work conditions in this factory.** 76% of workers think that their workplace is not dangerous and does not contain any health risks, and 78% of workers report that the personal protective equipment (PPE) provided by the factory is sufficient to prevent them from unsafe exposure to health and safety hazards. 86% of workers report that their workplace is not very noisy. Management and almost all (92%) workers agree that there are first aid kits on each production floor and that they are easily accessible. Of those who live in the dormitory provided by the factory¹⁷, 94% of them think that the dorm is not crowded. All respondents who dine in the canteen¹⁸ feel that the canteen is clean and hygienic¹⁹.

Regarding fire prevention, Management Self-Assessment shows that all workers have participated in evacuation drills and that a fire drill is organized at least once a year. These results are consistent with the Worker Survey, as almost all (97%) workers have participated in evacuation drills organized in the workplace.

However, there is potential risk of work-related accidents in this factory. Nearly one third (29%) of respondents state that there were some work-related injuries in the last 12 months. The Management Self-Assessment also verified this finding, reporting that 6 accidents happened at work during that time period. Although the number of accidents is small, it is still advised for management to review the reasons for the injuries and to take appropriate preventive actions to reduce risk.

2.8 Environmental Protection

This employment function examines knowledge and awareness of both workers and management on environmental protection. The Management Self-Assessment and the Document Review show that there **are policies and procedures regarding environmental protection in this factory, and that workers have a good knowledge of these regulations.** Looking closer at the details, 81% of workers know of the policy and procedure on environmental protection. 76% of workers know how to deal with production waste, and almost all (93%) workers recognize the existence of a

¹⁷ According to the Worker Survey, 23% of participants live in the dorm.

¹⁸ According to the Worker Survey, 42% of workers dine at the canteen.

¹⁹ Based on the Worker Survey, 53% of workers feel the canteen is very clean and hygienic, with another 47% think it is more or less clean and hygienic.

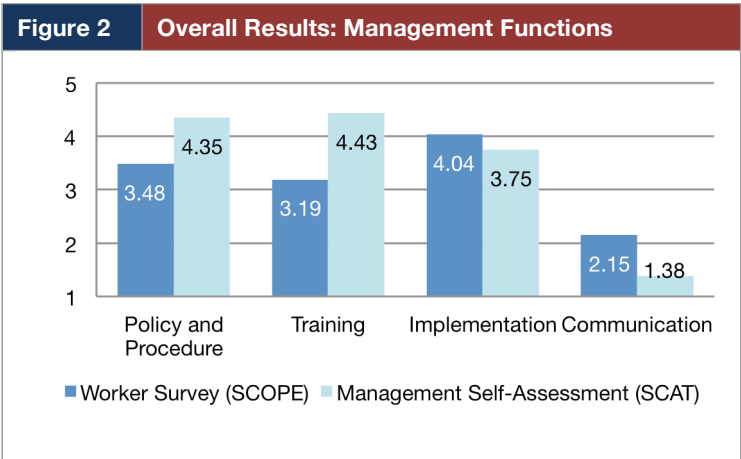
dedicated area to store production waste. For those who use chemicals in their daily work²⁰, all workers agree that there is a dedicated area to store chemicals. Workers have a generally high awareness about water and energy saving, as most (89%) workers recognize the importance of saving water and energy at the production site.

2.9 Termination & Retrenchment

This employment function examines the factory’s protocol when workers resign, and addresses the transparency, fairness, and objectivity of the factory’s termination and retrenchment policy and procedures. Results of both the Worker Survey and the Management Self-Assessment indicate that there is a written resignation procedure in the factory and most (89%) workers know of its existence. Based on the Worker Survey, almost all (94%) respondents are aware of who is responsible for handling the resignation, 80% of participants do not agree that the factory can fire workers without an appropriate reason, and if an unfair lay-off happened, a majority (85%) of workers would take positive actions to solve the problem²¹.

However, a considerable number (22%) of workers report that the factory may force them to stay if they were to tender their resignation, and 22% of participants have witnessed co-workers leaving the factory without telling management. Management also confirmed this finding²². Because this problem does occur from time to time in this factory, in order to maintain a stable workforce, it is necessary to identify the reasons for this problem, in order to make workers understand that there is no forced labor in this factory.

2.10 Management Functions



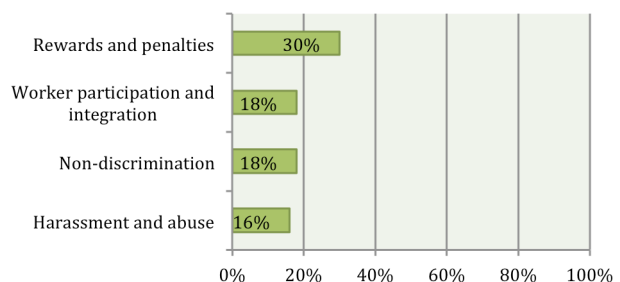
The assessment also analyzes a factory’s performance in regards to 4 Management Functions: Policy & Procedure, Training, Implementation, and Communication. This allows for a comprehensive and systematic detection of potential risks and systemic failures. Worker Survey and Management Self-Assessment results (see Figure 2) show that more efforts should be invested in Communication between workers and management.

²⁰ According to the Worker Survey, 15% use chemicals in their daily work.

²¹ Among those who would take positive actions, 50% would talk to supervisors, 42% would talk to management, and 39% would contact the local labor bureau.

²² According to the Management Self-Assessment, around 5 workers left the factory without telling management.

Figure 3 Factory Policies/Regulations that Workers Know of



Source: Worker Survey

The documents²³ submitted by management show that the factory has written policies and procedures in place that cover all 9 assessed Employment Functions. Results from the Worker Survey show that, to some extent, workers know about these policies and procedures (see Figure 3), but the coverage is not sufficient for all of these topics, especially Worker Participation & Integration, Harassment, and Non-discrimination. Therefore, more efforts are needed to ensure that all work- and worker-related policies are well communicated with all

workers.

Given that there is no worker representative mechanism in this factory; both workers' and management's scores are rather low in the management function of Communication. Furthermore, as previously mentioned, communication gaps are deemed to exist in Compensation, Hours of Work, Industrial Relations, and Grievance System. Effective communication can not only deliver the policies and procedures of the factory more effectively, it can also fully mobilize workers to join in factory's affairs; therefore, the factory should review the current communication channels and create multiple ways to collect workers' feedback.

2.11 Loyalty and Satisfaction

In addition to the 9 employment functions and 4 management functions, the Worker Survey collects workers' feedback about their satisfaction towards working and living conditions provided by the factory and their tendency to leave. The results from the Worker Survey indicate that workers have a fairly high level of commitment to the factory. As shown in Figure 4, only 2% of participants stated they were planning to leave the factory in the next 2 months. When asked about their willingness to stay for the next 2 years,

Figure 4 Workers' Tendency to Leave: Short Term vs. Long Term

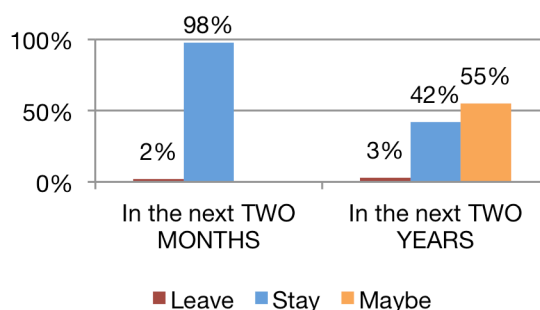
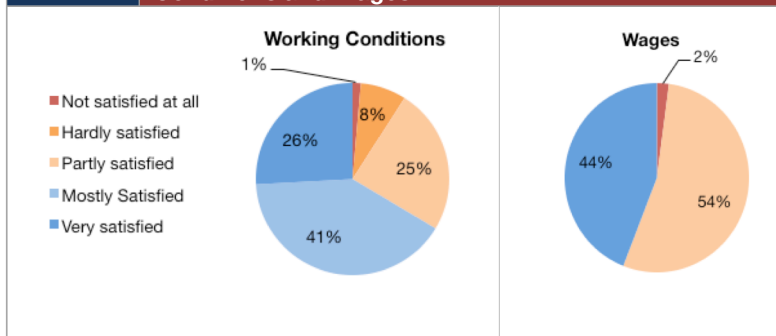


Figure 5 Workers' Satisfaction with Working Conditions and Wages



²³ The documents submitted by management include the factory's Codes of Conduct and labor regulations; grievance procedure and a copy of grievance letter from workers and the meeting minutes for grievance solution; pay slips and working hours record of July 2012; regulations on salary and income; procedures on orientation training; a list of workers who participated in the training on factory's regulations; and a handbook on CSR SA8000-2001.

, more than half (55%) of workers answer in the affirmative. The high score for loyalty may depend on their satisfaction with the factory. More than two-thirds (67%) of respondents are “very” or “mostly” satisfied with the factory’s working conditions, and only 2% of workers report dissatisfaction regarding their wages in this factory (see Figure 5).

2.12 Correlation Analysis

Different elements are analyzed and measured to see if there are any factors that positively or negatively affect the factory’s overall performance. Key findings are as follows:

- Health & Safety positively correlates with worker’s satisfaction with the factory²⁴. This reveals that the factory’s good performance on working conditions and workers’ living conditions will enhance employees’ general feeling of satisfaction.
- Policy & Procedures positively correlates with Training and Communication²⁵. In other words, the respondents who deem communication and training to be favorable have better knowledge of the factory’s policies and procedures.

²⁴ The correlation coefficient between Health & Safety and Workers’ Satisfaction is 0.497 (statistically significant at 0.01 level).

²⁵ The correlation coefficient between Training and Policies & Procedure is 0.415 (statistically significant at 0.01 level). The correlation coefficient between Communication and Policies & Procedure is 0.562 (statistically significant at 0.01 level).