

FLA Audit Profile	
Factory Code	680015864G
Country	China
FLA Affiliate	Deckers
Monitor	Level Works
Audit Date	October 20-21, 2008
Products	Footwear
Processes	Cutting, Lasting, Sewing, Outsole, Printing, Packing
Number of Workers	4,442



**FAIR LABOR**  
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**Wages, Benefits and Overtime Compensation: A. Holidays, Leave, Legal Benefits and Bonuses**

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

Audit Date	Audit Type	Audit Scope	Auditor	Score
10/21/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

**Explanation:** Not all workers in factory were entitled to 5 types of social insurance schemes. The details as below: factory did not make any contributions to the child-bearing insurance scheme for workers. Only 700 out of 4442 employees participated in retirement and unemployment insurances; only 2400 out of 4442 employees participated in illness insurance and disability caused by work-related injury or occupational disease insurance. An official approval from the local social security bureau to seek exemption from certain kind of social insurance schemes was available.  
Supporting Evidence/Sources: Documents review and management interviews.  
Note: As per the factory management, it was noted that the local workers could participate in all 5 types of social insurance. However, migrant workers from other provinces could not participate in child-bearing insurance.

**Plan Of Action:** 1) Dockers requires all our business partners, at a minimum, will pay employees wages and benefits that meet applicable laws. 2) Based on the actual local situation on the implementation of the social insurance, factory should make reasonable and progressive plan to increase the percentage and coverage of the social insurance for all workers, and meet the goal of full coverage before mid of 2009. 3) Factory is suggested to consider supplementary commercial insurance or internal welfare items to benefit migrant workers on child-bearing etc., if they are not entitled to participate in local child-bearing insurance or any social insurance type.

**Deadline Date:** 02/13/2009

**Supplier CAP:**

**Supplier CAP Date:**

**Action Taken:** According to the verification visit on Dec. 3rd, 2008, there are 3712 employees in the factory. Currently 700 employees are covered by 4 types of social insurance except for maternity insurance; additionally, 1700 employees are covered by work injury insurance and medical insurance. 2400 employees (without specified names) are covered by commercial insurance covering work injury and medical insurance. The group compliance director is working on a general group plan on progressively improving the social insurance participation in 2009. According to the ESC (Deckers Ethical Supply Chain Compliance) visit on Feb.12, 2009, no specific improvements taken on social insurance. Factory management expressed that they had discussed on the cost increase, and no further agreement made on the increase of social insurance coverage for workers. Deckers required the factory to update the status of social insurance regularly in the Deckers Supplier Quarterly ESC (Ethical Supply Chain) Report since April 09. Since Mar.09, the factory had reviewed the grievance system and updated the workers representatives, arranged trainings for most workers by local labor bureau on labor standards and labor law.

**Plan Complete:**  
**Plan Complete Date:**  
**Action Verified:**  
**Action Verified Text:**  
**Action Verified Date:**  
**Comments:**

## Freedom of Association: B. Right to Freely Associate

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

Audit Date	Audit Type	Audit Scope	Auditor	Score
10/21/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

**Explanation:** All factories in China fall short of the ILO standards and FLA Freedom of Association & Collective Bargaining Benchmark on the right to organize and bargain collectively. For details, please see China-Specific FLA Comment. Notes: There was no union established in factory. However, there was a workers' committee there with about 29 workers' representatives. Workers can go through representatives for complaint or directly write letters to factory senior management through suggestion box. The factory management would investigate the actual status, and then informed the result to the related workers.

**Plan Of Action:** 1) Deckers requires that all business partners shall recognize and respect the right of employees to freedom of association and collective bargaining. Where these rights are restricted under law, parallel means for the representation of workers are encouraged. 2) Factory is encouraged to support democratic election for labor union, worker representatives, etc. Factory should provide necessary trainings to make sure the associations functioning properly. 3) Grievance system shall be refined and well communicated among all workers for resolution of their concerns.

**Deadline Date:** 02/13/2009

**Supplier CAP:**

**Supplier CAP Date:**

**Action Taken:** According to the verification visit on Dec. 3rd 2008, the factory reviewed the grievance system in August 2008, and improved the detailed contact information, reporting procedures to enhance the effectiveness. Factory elected worker representatives from each department, held meetings between worker representatives and factory management regularly to solve the concerned problems. (The election was generally democratic based on anonymity; the voting records were kept for verification.) Normally regular meetings are held once a month, simple meeting minutes is available for checking. Factory management is also considering the application of labor union according to the local government requirement in 2009. According to the ESC visit on Feb. 12, 2009, no specific improvements taken on freedom of association. The former compliance supervisor was relocated to another factory of the group, and the new supervisor will take over the task since Mar. 09. Deckers required the factory to update the status of effective worker representative regularly in the Deckers Supplier Quarterly ESC Report since April 09.

**Plan Complete:**

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

**Harassment or Abuse: O. Security Practices/Body Searches**

H&A.15 All security practices shall be gender-appropriate and non-intrusive, so that the dignity of the worker concerned is protected when a search is undertaken. Searching of bags and other personal items to prevent theft is acceptable. Body searches and physical pat-downs shall only be undertaken when there is a legitimate reason to do so and upon consent of the worker, unless a state official with the power to do so (such as police officer) has ordered the search. Body searches cannot be undertaken in public and the person who undertakes the search shall be of the same sex as the person who is being searched. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
10/21/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

**Explanation:** One interviewed worker reported that he was unhappy with factory security practices. The security guards conducted pat-down body searches when he was off-duty and passed through the security box at factory gate. The worker was not happy because he felt the security guards had hurt his dignity. He also complained that the security guards held a very bad attitude towards him. Supporting Evidence/Sources: Workers Interview

**Plan Of Action:** 1) Deckers requires our business partners shall treat their employees with respect and dignity. Worker environment must be free of intolerance, free from retribution as a result of expressing grievances, and free of corporal punishment. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. 2) Factory should review the regulations for security practices; eliminate any content related to body searches according to local law. 3) The grievance system shall be refined for proper resolution on workers concern. Training and communication shall be provided to all workers on how to apply the grievance system efficiently.

**Deadline Date:** 11/28/2008

**Supplier CAP:**

**Supplier CAP Date:** 10/31/2008

**Action Taken:** According to the verification visit on Dec.3rd, By the end of Oct.2008,Factory reviewed the regulations of security, and trained the security guards properly handling security inspection avoiding violated the concerned human rights and legislation. Scanners are adopted for major inspection, and on specific suspicious cases, employees are informed to open the bags by themselves and in private and separate place. Factory also asks help from Local police handling stealing cases.

**Plan Complete:**

**Plan Complete Date:**

**Action Verified:**

**Action Verified Text:**

**Action Verified Date:** 02/12/2009

**Comments:** According to the ESC visit on Feb.12, No negative findings on this aspect.

## Health and Safety: H. Permits and Certificates

H&S.8 The employer shall at all times be in possession of all legally required and valid permits and certificates related to health and safety issues, such as those related to the purchase and storage of chemicals, fire safety inspections, inspection of machinery, and (chemical) waste disposal. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
10/21/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

**Explanation:** 1) No fire service inspection certificate for the dormitory buildings in the factory.  
Supporting Evidence/Sources: Documents Review and Factory Management Interview.  
2) The inspection certificate of competency on cargo lift used in the factory was expired on August 22nd, 2008. Supporting Evidence/Sources: Documents Review and Factory Management Interview.  
3) One boiler worker's operation license had expired on May 17th, 2008. Supporting Evidence/Sources: Documents Review and Factory Management Interview.

**Plan Of Action:** 1) Factory should review and update all the required H&S certificates regularly on time according to local law. 2) The H&S policy and procedure should be refined with proper accountable staff, responsibility and related consequences, a reminding and tracking system is suggested to be created for proper follow up. 3) All H&S records should be filed and managed properly, regular inspection should be included in internal audits.

**Deadline Date:** 11/28/2008

**Supplier CAP:**

**Supplier CAP Date:** 11/14/2008

**Action Taken:** Based on the verification visit on Dec.3rd, All the expired certificates had been updated immediately. Factory reviewed the related policy and procedures on proper management of the certificates. Accountable staff members are assigned for regular internal monitoring and make sure the improvement is consistent and sustainable.

**Plan Complete:**

**Plan Complete Date:**

**Action Verified:**

**Action Verified Text:**

**Action Verified Date:** 02/12/2009

**Comments:** According to the ESC visit on Feb.12, no negative findings on certificates.

## Hours of Work: B. 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)

Audit Date	Audit Type	Audit Scope	Auditor	Score
10/21/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

**Explanation:** The majority workers were not provided with one rest day in seven days periods. The longest consecutive working days without one day rest were 29 days in December 2007, with the average of 13 days. Supporting Evidence/Sources: Documents review and workers interviews.

**680015864G – China: Deckers**

**Plan Of Action:** 1) Deckers requires our business partners comply with legally mandated work hours. Except in extraordinary business circumstances, employees should be provided one day off in seven days, and will work no more than 60 hours per week or in compliance with legal limits if they are lower. 2) Factory is expected to review the working hours policy, consider orders planning, production capacity, and make a reasonable plan to reduce overtime work progressively to meet the requirement. 3) Factory should review the "swapping days" policy for special situation, and compensate workers with alternative day off according to FLA benchmark.

**Deadline Date:** 11/28/2008

**Supplier CAP:**

**Supplier CAP Date:** 10/31/2008

**Action Taken:** Based on the verification visit on Dec. 3rd, 2008, since October 2008, factory reviewed the orders planning according to production capacity, reduced the brands from 13 to 4, and reduced the orders from 600k to 400k. Further adjustment on motivation system is considered in 2009 to improve the productivity and guarantee workers have at least one day rest in seven days. According to the ESC visit on Feb. 12, 2009, factory didn't manage overtime well since December 08, due to low productivity and improper management on production planning. Many workers worked excessive overtimes, for some workers, one day rest was not guaranteed in seven days. Deckers ESC manager met with the factory senior management and addressed the issues. Further remediation is required to reduce the overtime work accordingly, and regular follow up will be conducted. Since Feb.09, "Root Cause Analysis on Exceeding Overtime work" has been initiated in the Factory by Deckers. This ongoing project aims to identify root causes of exceeding overtime work and explore sustainable solutions to improve working hours management. A detailed analysis report is expected to come out by mid May 2009. At the 1st stakeholders meeting in late April09, according to both the factory business manager and Deckers planning department, Deckers place reasonable orders according to the related production capacity in this factory.

**Plan Complete:**

**Plan Complete Date:**

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**Action Verified Date:**

**Comments:**

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## **Hours of Work: J. Overtime/Calculation Over Period Longer Than One Week**

HOW.10. Employers are allowed to calculate normal hours of work as an average over a period of longer than one week where local laws, regulations and procedures provide for such a possibility but only when all formal and procedural requirements attached to such calculation (for instance, obtaining official permission from the relevant authorities or limits to the period during which such calculations can be made) are met. The basis for such calculation shall, however, remain at all times the lesser of 48 hours per week or legal limits on hours of work in the country of manufacture or, where such legal limits do not exist, the regular work week in such country. (S)

<b>Audit Date</b>	<b>Audit Type</b>	<b>Audit Scope</b>	<b>Auditor</b>	<b>Score</b>
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**Explanation:** Most workers' total weekly working hours were exceeding 60 hours, the

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maximum weekly working hours were 95.5 hours in December 2007, with the average of 65 hours per week. Supporting Evidence/Sources: Documents review and workers interviews.

**Plan Of Action:** 1) Deckers requires our business partners to comply with legally mandated work hours. Except in extraordinary business circumstances, employees should be provided one day off in seven days, and will work no more than 60 hours per week or in compliance with legal limits if they are lower. 2) Factory is expected to review the working hours policy, consider orders planning, production capacity, and make a reasonable plan to reduce overtime work progressively to meet the requirement. 3) Factory should also review voluntary overtime system and ensure voluntary overtime application according to the according to FLA benchmark.

**Deadline Date:** 11/28/2008

**Supplier CAP:**

**Supplier CAP Date:**

**Action Taken:** Based on the verification visit on Dec. 3rd, 2008, since October 2008, factory reviewed the orders planning according to production capacity, reduced the brands from 13 to 4, and reduced the orders from 600k to 400k. However during the production peak time such as November and December, some workers still worked more than 60 hours per week. Further adjustment on motivation system is considered in 2009 to improve the productivity and guarantee workers work no more than 60 hours per week. According to the ESC visit on Feb. 12, 2009, factory didn't manage well on overtime works since December 08, due to low productivity and improper management on production planning. Many workers worked excessive overtimes, for some workers, one day rest was not guaranteed in seven days. Deckers ESC manager met with the factory senior management and addressed the issues. Further remediation is required to reduce the overtime work accordingly, and regular follow up will be conducted. Since Feb.09, Deckers has implemented "Root Cause Analysis on Exceeding Overtime work" project in the Factory. This ongoing project aims to identify root causes of exceeding overtime work and explore sustainable solutions to improve working hours management. A detailed analysis report is expected to come out by mid May 2009.

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