



April 20, 2012

Summary Report

INDEPENDENT ASSESSMENTS AND REMEDIATION AT PT. GLOSTAR INDONESIA

Overview

In April 2011, Nike, Inc. requested the involvement of the FLA with respect to a number of issues that had arisen at the factory PT. Glostar Indonesia (henceforth Glostar; the factory is sometimes identified as GSI), located in Sukabumi, Indonesia. The factory, owned and operated by Pou Chen Group,¹ supplied Converse², a Nike, Inc. affiliate brand, as well as adidas³ and VF Corporation⁴. Internal monitoring by Nike Inc., confirmed by internal monitoring by adidas, had found noncompliances in the area of harassment or abuse, among others. In addition, Nike Inc. had identified issues regarding communication from management to the employee base.

The FLA agreed to examine the situation at Glostar, verify remediation efforts promoted by the brands, and make additional recommendations regarding remediation based on the results of an independent assessment. Further, the FLA proposed conducting a workers' perception survey on the topics of hiring system, grievance procedure, and workers' participation. There was full cooperation from Glostar and Pou Chen Group with respect to access to all facilities, records, and workers for interviews.

Independent External Monitoring

On December 22, 2011, an independent external monitor accredited by the FLA conducted an Independent External Monitoring (IEM) visit to Glostar. The IEM was unannounced. The FLA monitor was provided with reports of recent internal monitoring by Nike Inc. and remediation plans developed to address noncompliances. Noncompliances identified in the IEM included:⁵

- Use of broker/illegal agency to secure employment at Glostar.
- Based on a review of factory's grievance and disciplinary records, instances of harassment or abuse during the last three months were identified, including physical violence by supervisors and at least one incident of sexual harassment.

¹ In June 2011, the FLA Board of Directors approved Pou Chen Group as a Participating Supplier.

² Converse is an affiliate brand of Nike, Inc., an FLA Participating Company.

³ adidas is a Participating Company in FLA.

⁴ VF Corporation's affiliation with FLA covers their collegiate production only and does not include Glostar.

⁵ The full IEM report is available at <http://www.fairlabor.org/report/glostar>.

- Gender discrimination in hiring and potential discrimination against pregnant women through the use of medical tests.
- Lack of secure communication channels for workers to be able to report allegations of noncompliance directly to the brand (Nike/Converse).
- Inappropriate installation of Lock Out-Tag Out (LOTO) devices.
- Fire evacuation plan not posted in one of the buildings.
- Lack of labels in some chemical containers and inadequate secondary containment for chemicals.
- Chairs missing backrests.

Remediation

At the request of Nike Inc. and Converse, Glostar/Pou Chen Group developed a comprehensive corrective action plan to remediate noncompliances identified in the IEM.⁶ The remediation plan expands actions already being undertaken to address issues identified by the brands through internal monitoring. Remediation actions already taken or to be taken by Glostar include:

- Revise recruitment Standard Operating Procedure to eliminate the possibility of hiring through brokers.
- Factory has dismissed all supervisors involved in the reported harassment or abuse cases and will strengthen implementation of Zero Tolerance Policy regarding harassment or abuse (issued in May 2011) to explicitly include capability building for managers and supervisors, including leadership development and cross-cultural training as part of performance evaluations.
- Immediately remove banner indicating gender discrimination in hiring and replace it with banners that are consistent with FLA and Nike standards.
- Revise SOP on hiring to eliminate medical checkups from recruitment decisions.
- Build up communications channels between employees and the management team, disseminate related information, and review grievance cases to identify which channels are preferred by workers. (Nike is researching solutions to provide a secure communication channel that would enable Glostar workers to report a noncompliance directly to the company.)
- Develop and implement a best practice LOTO system.
- Immediately post evacuation plan and develop and implement a best practice fire safety management system.
- Develop chemical management procedures and provide secondary containment wherever needed.
- Provide chairs with backrests at all workstations.

Worker's Perceptions Survey/Management Survey

⁶ The full remediation plan is available at <http://www.fairlabor.org/report/glostar>.

With the cooperation of Glostar, in November 2011 the FLA conducted a survey of workers' perceptions (SCOPE) on the factory's hiring system, grievance procedure, and workers' participation.⁷ A total of 148 workers were randomly selected to participate in the survey; to protect anonymity, survey participants were directed not to fill in their names in the questionnaires. Findings of the survey are intended to help Glostar gain a thorough knowledge of how workers feel about the systems and practices in these three areas and to develop next steps for capability building.

The SCOPE survey followed a management self-assessment on the same topics, which was also conducted by the FLA. Comparing results from the SCOPE survey and management self-assessment shows the following points of agreement and discrepancies between workers' and management's perspectives:

- Both the workers' survey and management survey suggest that Glostar's human resource department fails to motivate the workforce and promote productivity. Glostar's management largely views the human resources department as an administrative agent, and does not recognize it as a driver for personnel development or worker retention. Workers' feedback highlights poor tools to assess workers' performance and support their long-term development.
- There are significant knowledge and perception gaps between supervisors and workers. Such gaps are particularly stark with regard to grievance procedure and workers' participation. Supervisors show much better knowledge of policy and procedures; both groups show similar level of awareness of the importance of having well implemented grievance procedure and worker participation system.
- Training provided by Glostar is neither sufficient nor effective. Neither workers nor management staff are well-trained on the grievance procedure or on how to get involved in factory affairs.
- There is almost complete lack of documentation for workers' performance appraisals, grievances received and handled, and workers' participation. There is still little communication on the function and mandate of worker representative bodies or decisions reached.

Based on the analysis of the workers' survey and management self-assessment, the FLA made a series of recommendations to Glostar and to Pou Chen Group on ways to enhance the factory's hiring system, grievance procedure, and workers' participation. As a result, the Glostar remediation plan was significantly informed and strengthened by the knowledge gained through the SCOPE worker survey and management self-assessment.

Conclusion

The IEM assessment conducted by an accredited independent monitor at Glostar identified a number of noncompliances with the FLA Code of Conduct and Compliance Benchmarks as well as with Nike, Inc.'s Code of Conduct. As a result, Glostar/Pou Chen Group, have

⁷ The full SCOPE report is available at <http://www.fairlabor.org/report/glostar>.

developed a robust remediation plan to address said noncompliances. On a parallel track, Pou Chen Group is also taking steps to address findings and recommendations made by the FLA in the context of the survey of workers' perceptions and management self-assessment on the factory's hiring system, grievance procedure, and workers' participation. FLA will be following up with Pou Chen Group and Nike Inc. on the remediation plan and report publicly on its progress.