



**SUMMARY REPORT
THIRD PARTY COMPLAINT
HANSAE VIETNAM (VIETNAM)**

On January 21, 2016, the Fair Labor Association (FLA) accepted for review a Third Party Complaint filed by Cornell University regarding the factory Hansae Vietnam (hereinafter Hansae), located in Ho Chi Minh City, Vietnam. The complaint called for an investigation of issues related to payment of productivity bonuses that resulted in strikes in October and November 2015 in Hansae's Workshop 5. Nike, an FLA-affiliated company, is a buyer from the factory.

Non-payment of bonuses is a violation of the FLA Workplace Code of Conduct (Employment Relationship Benchmark ER.22, Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits) which requires that employers provide all legally mandated fringe benefits, including holidays, leave, bonuses, severance payments and 13th month payments to all eligible workers within legally defined time periods (ER.22.1) and that all fringe benefits (including bonuses) shall be calculated correctly (ER.22.2). The FLA's Compensation Compliance Benchmark C.5, Accurate Calculation, Recording and Payment of Wage, states that all payments to workers, including hourly wages, piecework, fringe benefits and other incentives shall be calculated, recorded, and paid accurately.

The FLA accepted the complaint and moved it to Step 2 of the Third Party Complaint process. Under Step 2, Nike had up to 45 days to investigate the allegations internally and submit a report to the FLA. Nike chose to waive an internal investigation and agreed to move the process to Step 3, where the FLA investigates the complaint through an independent expert or monitor.

The balance of this summary report describes the independent investigation into the allegations raised in the Third Party Complaint, the findings and recommendations of the investigation, the remediation plan prepared by factory management, and the FLA's conclusion and next steps.

After the conclusion of the FLA investigation related to the Workshop 5 strikes, the Worker Rights Consortium (WRC) published in May 2016 a report on labor issues covering all workshops within Hansae Vietnam that looked into a wider range of potential violations of labor standards.

Independent Investigation

The FLA engaged Global Standards, a Vietnam-based monitoring organization that is accredited by the FLA to conduct assessments, to carry out an independent investigation of the allegations at Hansae. The terms of reference for the investigation included:

- Review documentation regarding productivity bonuses and their proper calculation and/or payment at Hansae Vietnam currently as well as in effect in 2015. Assess their consistency with national law and the FLA Workplace Code of Conduct.
- Investigate allegations that, as a result of disputes over proper calculation and/or payment of productivity bonuses, workers conducted a strike at Hansae Vietnam's facilities (Workshop 5) in October 2015 and a second strike in November 2015.
- Investigate allegations that the above-mentioned strikes were settled between management and workers through negotiation. Determine whether, if such a settlement was reached, its terms and conditions were consistent with national law and the FLA Workplace Code of Conduct.
- Investigate the extent to which workers at Hansae Vietnam are aware of and understand the bonus system and that workers have been trained on the system.
- Review management and union grievance procedures at the factory and their implementation; examine the extent to which grievance procedures were utilized to address issues pertinent to the strikes.
- Review factory policies and procedures regarding leave and breaks and investigate their implementation by the factory.
- Investigate any other allegations regarding violations of national law or of the FLA Workplace Code of Conduct that may surface during the investigation

Global Standards staff visited the factory in mid-March 2016. During the visit, Global Standards staff met with management, supervisors, staff, workers, and trade union representatives, and conducted interviews both individually and in groups at the factory and off-site. Global Standards staff conducted a total of 28 interviews with workers on-site and 15 interviews with workers off-site. Global Standards staff also reviewed documents related to the strike, production bonuses, grievance systems, and actions taken by Hansae since the strikes. In advance of the visit to the factory, Global Standards staff met with Nike's local compliance manager and reviewed two Nike compliance reports.

Findings and Recommendations

Among the findings of the Global Standards report¹ are:

- According to workers, the proximate causes of the two strikes at Workshop 5 (October 17-19 and November 27-30) were decisions by management (1) not to allow workers to bring ice with their drinking water into the workplace; and (2) to

¹ The full text of the report by Global Standards is available at <http://www.fairlabor.org/report/hansae-vietnam>.

- impose a toilet restriction policy.
- Workers also had numerous other complaints, centered on a change in management and work rules that occurred with a new factory manager (FM) taking over Workshop 5 on September 1. Most of the workers, line leaders, and supervisors were upset with the changes instituted by the new manager.
 - Underlying the complaints and the strikes was the company's Quarterly Bonus policy, and the dashed expectations of workers who anticipated a bonus for the third quarter of 2015 but wound up not reaching the profitability threshold because of a relatively poor performance in September. Workers stated that they had been led to believe by the previous FM that the bonus would be paid out, and the failure to achieve it was deeply disappointing to them. Workers blamed the failure to achieve the bonus on the new FM.
 - Workers perceived the new manager as an ineffective communicator with supervisors and line leaders, and prone to making decisions without consultation with the management team. Instances of such decisions were unilateral changes to work rules regarding bringing water into the work place and a toilet restriction. Workers also complained that production targets are too high, which pressures them to work – without pay – during their lunch break.
 - Workers also reported that out of the six exit doors in the workshop, only two are open during working hours and only one during lunch time. This means that workers are inconvenienced by the long time it takes to enter and exit the building due to these restrictions, in addition to raising fire safety concerns.
 - Workers claimed that many grievances were submitted to management prior to the strike and yet management took no action to address them. Workers stated that they distrusted the grievance process and were reluctant to write grievance letters because they did not want to reveal their identity. Workers stated that they preferred to go to line leaders with concerns rather than using more formal channels.

The investigator concluded that although Hansae management has taken steps since the strikes to improve communications and grievance procedures at the factory, significant concerns were still present: (1) workers are still mistrustful of formal grievance procedures; (2) feedback and bottom up communication from workers to line leaders and through them to the FM have improved, but there is great of room for improvement; (3) the authoritarian management style of the FM does not promote consultation with workers and line managers on working conditions; (4) high production targets coupled by the decision by the FM to curtail overtime means that workers often work during their lunch periods, resulting in unrecorded and unpaid overtime; and (5) the FM's high concern for security comes into conflict with other rights of workers and with worker safety.

Global Standards made a series of recommendations to Hansae management, including:

Closely study the transparency, fairness, and understandability of the current quarterly profit bonus system applied to production workers. At a minimum,

improve communication of the profit system to workers and better to revise the system.

Improve two-way communication in the factory and gather on an on-going basis feedback from workers, workers' representatives and line leaders.

Management should be better prepared and more responsive to workers' needs and demands to prevent and/or resolve future issues and situations that might lead to strikes.

Production targets should be set in such a way that they are achievable during regular working hours. When overtime occurs, it should be voluntary, be paid at a premium rate, and follow local laws.

Workers should not work during their lunch period; if they do, the work should be considered overtime and recorded and paid as such. Cutting power to machinery, dimming the lights, and encouraging workers to rest might be ways to discourage work during lunch periods.

The FM should receive training and guidance on improving communication with workers and on helping him balance security concerns with cultural sensitivities, fire safety and freedom of movement.

Factory Remediation Plan

Nike worked with Hansae to develop a comprehensive remediation plan that addresses the findings and recommendations in the Global Standards report. The full remediation plan, which encompasses a mix of short-term and longer-term actions, is attached to this report.² Among the remediation actions are:

1. Actions to improve communication around bonus policy. Short-term measures include simplifying the communication around bonuses, training workers on the bonus system, and announcing bonus decisions to all workers and managers. Implementation of these measures has already started. Long-term measures include pilot testing of a new bonus system at one of the workshops, benchmarking bonus system to other factories in Vietnam, and consulting with union and worker representatives. These measures are supposed to culminate with a decision whether to scale up the pilot by September 2016.
2. Actions to improve the grievance/internal communications system. The short-term measure is benchmarking grievance/internal communication procedures to those of the VJ factory (completed in March 2016); long-term measures include weekly FM open meetings with line leaders, supervisors, and workers, increasing worker participation in

² The individuals who are responsible for, or in charge of, executing each element of the action plan are listed in the column labeled PIC in the action plan. Where the proper name of an individual was provided, it has been redacted in this version for privacy reasons.

the Performance Improvement Consultation Committee, and exploration of additional ways to promote communication with workers.

3. Actions to be better prepared, more responsive, quicker, and more proactive in addressing workers' concerns. Short-term actions, implementation of which has already started, include improving the grievance system by shortening the time for resolving worker complaints, posting information on grievance channels at each work station, and monthly management meetings to identify root causes of worker grievances. In the longer term, the remediation plan foresees training of all workers on the new grievance system.

4. Actions to promote better communication, closer consultation and a more inclusive management style. Short-term measures such as a public commitment by FM to be a better listener and appointment of a Vietnamese production manager to improve communications with workers in the local language have already been implemented. A series of other measures aimed at improving trust and respect of workers and for selecting and appointing new FM to be carried out through July 2016.

5. Actions to ensure that production targets are achievable during regular working hours. The short-term measure relates to improved production target setting in the factory, while the planned long-term measure is the adoption of the General Sewing Data system for production targeting to be implemented within 12 months.

6. Actions to implement a system to ensure that all worked hours are recorded and properly paid. In the short term, to avoid work during lunch periods, Hansae has already put in place a policy of shutting down machinery and dimming lights during lunch periods. Hansae also plans, in the longer term, to train all workers on company policy regarding work hours.

7. Actions to seek a balance on the part of the FM between security and other concerns, such as cultural sensitivity, fire safety, and freedom of movement. In the short-term, the factory has already taken action to eliminate security pat-downs and restrictions on workers bringing ice into the workplace. In the long-term, Hansae plans to review security policies and procedures to reflect cultural sensitivities, fire safety, and freedom of movement.

FLA Conclusion and Next Steps

The investigation carried out by third party monitor Global Standards found a number of issues of concern at Hansae Vietnam, Workshop 5. Of particular concern to the FLA is evidence arising from the investigation suggesting:

1. Lack of worker familiarity with the system of productivity bonuses and potential unfairness of the system.
2. Uncompensated work conducted during lunch breaks.

3. Potential fire safety violations associated with closure of factory exits during the workday, allegedly for security reasons.
4. Undue restrictions on worker movement and use of restrooms/toilets.
5. Worker pat-downs prior to use of toilets that are inconsistent with the FLA Workplace Code of Conduct and Compliance benchmarks.
6. Ineffective grievance systems and worker fear of retaliation from using the grievance system.

As is noted above, the comprehensive remediation plan developed by Hansae management is intended to address the findings of the investigation. The FLA expects that Nike will:

- Monitor the implementation of the remediation plan.
- Report in detail to the FLA, and to other stakeholders, including interested universities, on a quarterly basis on the progress made in the plan's implementation.
- Allow for independent verification of changes made at Hansae as a result of the implementation of the remediation plan arising from the Third Party Complaint.

REMEDATION PLAN OF HANSAE ON FLA RECOMMENDATION

No #	Recommendation from FLA	Goals	Activities	PIC	Status	Timeline
1	Hansae headquarters should closely study and examine the transparency, fairness and understandability of its current Quarterly Profit Bonus system as it affects and concerns production workers. At a minimum, significantly more care is needed to communicate this system to workers and make it transparent. Fundamental revisions might be better still.	Bonus Policy Communication Improvement to ensure that it is fair, workers understand the calculation and have all of the information required to ensure that they are paid correctly	<p>A. Short-term: 1-1 Simplified the communication of the existing incentive bonus policy so that employees can understand the policy clearly 1-2 Training for all workers about the incentive bonus policy (March 26, 2016) Provide all employees with explanation card including internal hot line # for follow-up questions 1-3 Make the quarterly internal announcement about bonus performance for all employees, especially supervisors, so that they can understand why and what reasons they don't get their quarterly bonus (April 28, 2016)</p> <p>B. Long-term: 1-4. Pilot test of new bonus system in TG #9 from Jan'2016. - Closely reviewed current bonus system and benchmarked other factories' bonus system in Vietnam. - Developed new bonus system Pilot at TG #9 - Analyze the results of pilot - Feedback from Union and workers representatives - Decision to scale by Sept'2016</p>	1-1 HR manager 1-2 Grievance manager 1-3 Executive Manager 1-4 Senior VP	1-1 Done 1-2 Done 1-3 On going 1-4 On going	1-1 March 26, 2016 1-2 March 26, 2016 1-3 Started on April 28, 2016 1-4 Jan~Sep 2016
2	Hansae should look to seriously improve two-way communications (possibly modeled on the example of the VJ factory) to gather more timely and accurate feedback from workers, worker's representatives and line leaders on an ongoing basis.	Grievance/Communication System Improvement - to ensure that a response is given to workers who raise concerns and that appropriate action is taken following the investigation of the grievance	<p>A. Short-term: 2-1 Benchmark to VJ factory to learn about the grievance and communication system and improve the current system</p> <p>B. Long-term: 2-2 Weekly General Manager free talks with local supervisors, line leaders and all employees 2-3 Increase worker's participation in PICC (Performance Improvement Consultative Committee) 2-4 Explore further mechanisms to create multiple communication channels for workers (in consultation with Nike team)</p>	2-1 General Manager 2-2 General Manager 2-3 Compliance team 2-4 General Manager, Executive Manager	2-1 Done 2-2 On going 2-3 Done 2-4 On going	2-1 March 8, 2016 2-2 Started on April 9, 2016 2-3 April 8, 2016 2-4 Started on May 17, 2016
3	Hansae Management needs to be better prepared, more responsive, quicker and more proactive in addressing worker's needs and demands to prevent and/or resolve future issues and strikes.	Better prepared, more responsive, quicker and more proactive in addressing worker's needs and demands	<p>A. Short-term: 3-1 Reviewed and revised the current grievance system Improvements in the new grievance system: - Shortened by 1-7 days the time for resolving worker's complaints - Mechanisms created to communicate and receive feedback from workers following complaints resolution - Classify worker's complaints and identify trends and root causes every month - Senior leadership review of complaints trends and root causes and identify solutions to address complaints as appropriate 3-2 Grievance channel was posted at each workshop</p> <p>B. Long-term: 3-3 Training on new grievance system to all workers</p>	3-1 Executive Manager Trade Union HR Manager Grievance Manager 3-2 Grievance Manager 3-3 Grievance Manager	3-1 On going 3-2 Done 3-3 On going	3-1 Started on March 10, 2016 3-2 March 10, 2016 3-3 Started on March 26, 2016

4	The FM from Workshop #5 has a great deal of work to do to win the trust and respect of workers in that unit. This seems unlikely to occur without much better communications, closer consultation and a more inclusive management style to tackle, in a more collaborative and open manner, the issue of setting production targets and other policies of concern to workers.	Better communications, closer consultation and a more inclusive management style	<p>A. Short-term: 4-1 Public commitment from the manager of factory #5 to be better listener and cooperate in the internal workshop 4-2 Vietnamese production manager joined the factory #5 management team - Support the factory manager's communication with workers in local language - Production planning</p> <p>B. Long-term: 4-3 Improve the trust and respect of workers Improvements: - Personal coaching factory manager of factory #5 by senior VP - Review evaluation system for all managers and include evaluation of leadership and management skills - Review on boarding program for new managers - Training plan implementation for all managers 4-4 Set up a procedure for changing the factory managers - Announce to factory managers and supervisors 1 week before. - BOD random free talk with factory employees and supervisors several times within the first month. - New FM has dinner with line leaders every 2 weeks within first 3 months. 4-5 Factory manager has dinner with local supervisors & line leaders. (On going) 4-6 Develop Master Training Plan - Set-up strong organizational culture with understanding of Vietnamese culture & Team-building - Robust program focused on factory management capability development & technical support 4-7 Develop a long term strategy for localization of key management positions</p>	4-1 Senior VP 4-2 Name Redacted 4.3 Senior VP HQ HR Team 4.4 General Manager 4.5 Factory Manager 4.6 HQ HR Team 4-7 Senior VP	4.1 Done 4.2 Done 4.3 On going 4.4 On going 4.5 On going 4.6 On going 4.7 On going	4.1 March 19, 2016 4.2 Jan 16, 2016 4.3 Started on March 19, 2016 4.4 Started on March 17, 2016 4.5 Started on March 19, 2016 4.6 July 2016 4.7 July 2016
5	Production targets should be set in such a way that they are achievable during regular working hours. Or if additional production is needed, then overtime should be scheduled with the voluntary agreement of workers, following local law and FLA principles.	Production targets should be set in such a way that they are achievable during regular working hours	<p>A. Short-term: Improved the production target setting in factory #5 as following; 5-1. After 3 days of production, when workers are familiar with the style, the Time Check is completed based on this productivity level and then factory manager and production manager set target quantity per hour based on above Time Check.</p> <p>B. Long-term: 5-2. Adoption of GSD (General Sewing Data) system with full implementation within 12 months.</p>	5-1 Factory Manager & Production Manager 5-2 HQ global production planning team	5-1 On going 5-2 On going	5-1 Jan 2016 5-2 within 12 months
6	Workers should not be permitted to work during lunch breaks. If they do work during the lunch period, this time should be accurately recorded and properly compensated at premium overtime rates, as per local law and FLA Workplace Code of Conduct and compliance benchmarks. Cutting power to the machines, dimming lights and encouraging workers to rest may help to solve this issue.	Implement system to ensure that all hours of work accurately recorded and compensated.	<p>A. Short-term: 6-1. Prevent some workers from continuing to work during lunch by cutting power to the machines and dimming light during lunch breaks.</p> <p>B. Long-term: 6-2. Train all employees, supervisors and managers about local law and Hansae company policy regarding working hours</p>	6-1 Maintenance Dept. Manager 6-2 HR & Compliance team	6-1 On going 6-2 On going	6-1 Started on April 8, 2016 6-2 May 29, 2016
7	The FM should receive further training and guidance to help him balance security concerns with cultural sensitivities, fire safety and freedom of movement principles consistent with the FLA Workplace Code of Conduct and Compliance Benchmarks.	Implement policy changes that balance security concerns with cultural sensitivities, fire safety and freedom of movement principle. Implement policy changes that balance security concerns with cultural sensitivities, fire safety and freedom of movement principle.	<p>A. Short-term: 7-1 Immediate action taken in factory #5 includes elimination of security pat-down and door restrictions and allowing workers to continue to bring ice boxes into the workplaces.</p> <p>B. Long-term: 7-2 Review all security policies & procedures to reflect cultural sensitivities, fire safety and freedom of movement principle.</p>	7-1 Factory Manager 7-2 Senior VP	7-1 Done 7-2 On going	7-1 Oct 18, 2015 ~ Dec 31, 2015 7-2 May 29, 2016