Report

On

Paragon Investigation, Adidas, Noida

For Fair Labor Association, USA

Prepared and Submitted by:

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ABOUT THE INVESTIGATION

An investigation of Paragon Apparels, a facility supplying Adidas, was conducted by Association for Stimulating Know How (ASK) for FLA on the 1st and 2nd December, 2014. The factory is located in the Noida near the national capital of India. ASK was hired as special investigators for this task by FLA and the investigation was not announced in nature, that is the factory did not have the prior knowledge of the investigation.

The factory does cut to pack and embroidery in its premises and has a workforce of 1300 workers of which 779 are contract workers and the rest are the company’s payroll workers. Another of the company’s factories was handling production for Adidas prior to 2011, when the company’s entire production for Adidas shifted to this factory.

The investigation was conducted with focus on the following issues:

✓ Open issues in internal audits conducted by Adidas;
✓ Issues related to safety and health, including excessive heat in the workplace, improper labelling of chemicals (allegations of a worker drinking solvent kept in a soft drink bottle)
✓ Issues related to compensation, in particular pay systems and allegations that some workers are improperly being paid on a piece-rate basis

METHODOLOGY AND APPROACH

The investigation was conducted by a team of two members involving the following methodology:

- Document review
- Worker discussion on the shop floor and off site at the residences of the workers.
- Management interview
- Physical observation
- CSO consultation

A total of 25 workers were interviewed during the investigation process, of which 10 workers were interviewed off-site either in their residences or near the factory. Sampling was done based on the issues that were to be investigated, workers were chosen from the locations and sections which had the relevant aspects that needed to be verified on a random sampling process. During sampling it was taken into consideration that workers selected had spent considerable time with the facility to be able to comment on the issues which we sought to understand. The information gathering from workers was friendly for workers and non-threatening, confidentiality was maintained and the sentiments and privacy of the workers were respected. The factory management was cooperative and provided access to the investigation team to all the sections of the factory and it was supportive in providing all the required documents to the investigation team.

A CSO consultation was also conducted with a trade union in Noida to understand the status of labour rights and workers’ welfare in the garment industry in Noida, details of which have been included in this report.
ISSUES INVESTIGATED

1. **Open issues in internal audits conducted by Adidas**

   ✅ *Document review confirmed excessive overtime in a week in finishing department. At times workers were seen working for more than 12 hours a day.*

   The document review confirmed that workers are working more than 60 hours in a week and more than 10 hours in a day, which is a violation of the legal working hours including the overtime work. There are instances of many workers working between 14-18 hours in a day and up to 73 hours in a week. Such cases were seen in the records of the workers in the finishing section.

   ✅ *(1) Record review and workers interview confirmed that working hours of the factory is exceeding beyond adidas’ SEA [Social and Environmental Affairs] limits, which is 60hrs/week. Ex: Working hours record confirmed that workers in finishing and sewing sections were found to be working 62 to 69hrs/week in almost all the weeks of Jan2011, Feb2011 and March 2011. (2) Record review and workers interview confirmed that factory was found to be working on rest days without providing compensatory off. Ex: Workers had worked on 13 March 2011, 27 March2011 and 4 April 2011 which are rest days and compensatory off was not found to be provided to these workers.*

   As mentioned earlier the total hours of work exceed the SEA limit of 60 hours per week and in one case it has gone up to 73 hours in a week. However no cases were found of ‘no rest days’ and all the interviewed workers and the document review has confirmed that all the workers if working on rest days are receiving compensatory off later.

   ✅ *Security guards were not provided with weekly rest. Compensatory off were not being provided to security guards who worked on rest days. Status of weekly off still remains under question as time records did not seem to be verifiable.*

   The roster system of the security contract company was reviewed and it was seen that all the guards are provided with the weekly off if they worked on the rest days. However, one of the security guards and the guard supervisor are working 10 hours and 12 hours respectively every day. In other words, the guard’s regular shift is of 10 hours and the regular shift of the guard supervisor is of 12 hours every day, as against the 8 hours of legal requirements. When the documents like appointment letter was checked for both the guards, it did not have any mention of the hours of work. The wage pay records showed that though both guards are working 10 and 12 hours, but are getting paid according to the regular shift of 8 hours. Therefore, the extra hours are not being recorded as the overtime hours and neither are they getting compensated for it.
Since a shift for security guard comprises 8 hours of duty, therefore the current hours of work for the guard and the supervisor are not only a violation of the excessive overtime work hours but also an indication of the forced overtime work every day.

✓ Factory has hired around 1126 contract workers out of overall 1902 workers through various labour contractors namely Alok Enterprises, Priyanshu, D K Finishers and Roy and also licenses of these contractors are not available at the time of audit.

Factory has changed most of the contractors. ¹ The current list of contractors, their license status and number or workers is as follows:

- Ashu Enterprises: license expired on 31st August, 2014 and on 20th October 2014 the company applied for new license, which is still not in the files. The contractor provides 378 workers to the factory in the stitching section.
- Ashu Fashions: license expired on 31st October, 2014 and the company applied for new licence on 20th October, 2014 and does not have the new license in the files. The contractor provides 365 workers to the factory in the stitching section.
- Nitin Enterprises: it provides 18 workers to the factory therefore no license required; this company provides workers in the cutting section.
- G4S: The security contractor is providing 18 workers and therefore does not require any license.

The previous contractors, DK Finishers and Priyanshu, were providing workers in the finishing section, which later got closed because of the new lean production system in the factory; some of the workers from these contractors were taken on the factory’s payroll and the rest were taken away by their respective contractors and placed in other work sites. The factory identified the positions for which payroll workers were needed and contractors decided which workers to shift. Workers had the right to refuse to move to the factory payroll and continue to work for the contractor. Similarly, many workers formerly being provided by Alok on the ground floor and first floor and by Roy on the ground floor in the cutting section have been brought to the factory’s on-roll status (because under the adidas mandate, the contract workers are encouraged to be brought on the factory’s roll) and rest of them were taken away by their respective contractors.

A new challenge for the factory is now to bring the workers of Ashu Fashions, Ashu Enterprises, and Nitin Enterprises on the factory’s roll because of the fluctuating demand for workers based seasonality of orders. Ashu Enterprises and Ashu Fashions are being run by the same person under different licences for reasons of avoidance of legal taxation and other formalities. The contractor is a large scale contractor and has multiple agencies under it. On interview with its workers, the workers shared that they are receiving the right compensation and benefits and a large number of women workers have been working under this contractor for many years without any problem.

¹ One of the reasons was because the factory changed its production system to lean production hence fewer workers were required in the finishing section.
It must be noted that out of the total 1300 workers in the factory, 779 workers are contract workers. Even though the factory has tried to reduce their number, the number of contract workers in the factory still accounts for more than half of the total workforce in the factory.

2. **Issues related to safety and health**

On discussion with the workers, they shared that there have been no incidents of any worker drinking solvent. All the chemical bottles are now labelled and the workers handling the chemicals are aware of the bottles’ contents.²

<table>
<thead>
<tr>
<th>Issues Highlighted in Adidas internal audits 2011-2014</th>
<th>Current status</th>
</tr>
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<tbody>
<tr>
<td>Lack of protection on boilers, found unprotected wirings and missing protective guarding.</td>
<td>This issue is closed. The electrical wirings on boilers have been arranged properly and the protective guards have been installed in the boilers.</td>
</tr>
</tbody>
</table>

² Factory management stated that a worker had once knowingly consumed a solvent in an unlabelled container because of some personal family issues and not due to lack of awareness about the contents. This incident occurred over a year ago and at that time the labels on the solvent containers were missing. Since then the factory has labelled all the solvent and chemical containers in the factory. It must be noted that the current management staff is new to the factory and was not at the factory when the incident occurred, but they are aware that it happened.
| Diesel container in washing section was not installed safely. Lack of protection on boiler against physical and electrical hazards. Lack of protection against rain water on electrical panel at roof. | This issue is closed. Diesel container has been safely installed. The electrical panel on the roof has been protected against the rain by putting a shield of metal which does not let the rain water enter through the earlier open grilled space. |
| No legitimate labels available on the chemical containers. | This issue is closed partially. The chemical containers on the shop floor have been labelled with paper strips with the chemical’s name written on them. The big chemical containers in the store room have also been labelled. However, two big containers of Hexane have been labelled with yellow colour paint of which one container has the name in Hindi but the name on the other container is sketchy. |
High temperature was observed in spotting room allowing chemical fumes to vaporize fast. It was observed that windows were covered with waste fabric to avoid sunlight in work place which has not been effective. Damaged gloves were provided to fabric cutters.

The issue is closed. The current temperature of the spotting room is 27 degrees Celsius. Windows in spotting room have been painted black to avoid sun light and an exhaust fan has been fixed.
No adequate space available in factory periphery for obstruction free movement. Fabric rolls were seen kept on the floor hindering people to move freely. It may lead to stampede in event of fire or unexpected evacuation. Basic elements of emergency preparedness programs were missing. Rear side gate was locked whereby keys were not readily available with concerned employee.

Factory found to be engaged in washing operation; moreover screens were seen getting washed in the factory.

During assessment it was noted factory is engaged in washing operation at terrace area and cleaning of screen printing frames at ground floor. During management interview and onsite assessment found no Effluent Treatment Plant. Factory directly disposes of all contaminated water in drains.

This is issue closed. The fabric rolls have been stacked properly and moved away from the main movement path, marked with yellow lines (as illustrated in the photo), and thus providing enough space for people to move around in case of emergency. The rear side gate is now kept unlocked.

This issue is closed. Printing and washing processes have been shifted to another factory in C-128 and an ETP is installed there.

This issue is closed. The washing and printing processes have been shifted to another factory in C-128. The terrace area is now free from washing operations and the ground floor is free from screen printing operations. During the investigation, management informed that an ETP has been installed in the same factory with washing and printing operations.

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<table>
<thead>
<tr>
<th>Some of the exits which open to drive way are obstructed with tripping hazards making it difficult to evacuate at the time of emergency.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue is closed. There are no tripping hazards at the exits. The exits are now unobstructed and there is free egress in the case of emergency.</td>
</tr>
<tr>
<td>Observed congestion especially in sewing floors where observed 2 to 3 helpers sitting and working next to each other without space between them, sewing and other machines operators were surrounded by bins filled with garments/fabric panels etc., where operators are not able to come out from their work areas during emergency that can lead to stampede. Factory walk through confirmed that workers were sitting on floor and doing mending work and appropriate seating arrangements were not found to be provided.</td>
</tr>
<tr>
<td>The issues have been closed. Entire production in the factory has been arranged in form of online production, i.e. lean production. Therefore, all the sewing operations are running in a single line. Since such production does not require many helpers to move the material around, the use of helpers has been minimized. No workers sit on the floor and ladies involved in mending sit on benches in a line now.</td>
</tr>
<tr>
<td>Pulley guards of compressor were found to be missing. Pulley guards and shaft guards were not found to be provided to most of the sewing machines.</td>
</tr>
<tr>
<td>This issue has been closed. Compressor has been equipped with a pulley guard. All the sewing machines now have pulley guards and shaft guards.</td>
</tr>
<tr>
<td>chimney height of all generator sets was not found to be as required by local pollution control board norms.</td>
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<td>-------------------------------------------------</td>
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<tr>
<td>Factory walk through confirmed that exit sign boards were not found to be provided to second exit of fabric stores, raw-material stores, shed where card board boxes are stored, printing section and some exits at sewing and finishing.</td>
</tr>
<tr>
<td>observed fire extinguishers were not completely charged at many areas ex: basement floor.</td>
</tr>
</tbody>
</table>
First aid boxes were not found to be maintained in clean condition as identified layer of dust in first box.

Issue not closed. First aid box in the basement was empty, i.e., meaning that it did not have the medicines and other necessary first aid supplies required by law.
Stain removing was found to be done in the middle of the floor where chemicals used for spot wash were not found to be labelled and no MSDS were found to be available.

Issue not closed. The stain removing is now being done in a separate room on a table. The chemical containers are labelled. MSDS is available only for hexane; MSDS for Tipol, Amyl Acetate and Acetone is not available.
रसायन सुरक्षा - हेडलैन

साधारण पदार्थ एवं हेडलैन, सामान्य हेडलैन

कूट - C_4 H_10
भौतिक विशेषताएँ पानी: रंगीन है। पदार्थ को बर्फ या ब्रेड के साथ संयुक्त: स्थायी, किंतु अत्यधिक जलमग्नी।

विनियमित विकल्प: - 95°
उपाल विकल्प: - 69°
पानी विकल्प: - 23°

पानी में घुलने सीमा: - न के बराबर
आवश्यक गोल्डनमाइक: - 0.659
वाशिंग का प्रदेश: - 3(व्यवहार नाम
वाशिंग का ताप: 32 ग्रेड तापमान 20° C
विभिन्न चैटल: - 1.287.7

हेडलैन एक व्यापक औद्योगिक उद्योग है। यह वह बाह्य लैन रसायन जो साधारणतः साधारण रसायन से उत्पन्न होता है और उनके अधिकतम आयु अनुपात होते हैं। इसके इतिहास को देखते ही साधारण रसायन का उपयोग कर सकते हैं।

रसायन को देखकर - दीर्घ तारीख होती है तथा, इसके साथ हुये पानी में गहरी भागीड़ी हो सकती है।

विभिन्न प्रकार के भागों में दीर्घ तारीख होती है। इसके लिए एक बार बार सतह पर रखा जाना चाहिए।
Factory walk through confirmed that factory was not found to be provided eye wash station at the area where chemicals are used.

Issue is not closed. The eye wash station is still not functional and instead spray bottle and plain water bottles have been kept near the workstations as a substitute for eye wash station.
Observed poor housekeeping in compressor room.

Issue is closed. Compressor room is being maintained in good state in terms of house keeping.

Polythene bags filled with fabric wastes were dumped haphazardly at shed in drive way which is scattered on drive way near generator area, garment wastes / rejected garments were dumped on terrace, fabric rolls were dumped in a shed obstructing evacuation.

Issue not closed. The status is the same, with polythene bags still being used to store fabric wastes. However, terrace has been cleared off from the rejected garments and fabric roll has been cleared from the shed.
<table>
<thead>
<tr>
<th>Fact: Factory was found to be storing different types of materials such as racks, bags, tables, water cooler etc., under stairs in basement floor which can cause serious fire hazards.</th>
<th>Issue: Issue is closed. All the materials have been removed from under the stairs in the basement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record review confirmed that, fire permit is valid up to Feb 14 2011 and factory had not found to be applied for renewal of fire NOC for the year 2011 onwards. 2. Record review confirmed that submitted Standing Order is in the name of Paragon Apparels (B-59, Hosiery Complex) not in the name of Paragon Apparels (D-71).</td>
<td>Issue: Issue is closed. Factory has a new fire permit. Standing Orders are now in the name of Paragon Apparels D-71 and dated 8/2/2013 as illustrated in the photo below.</td>
</tr>
</tbody>
</table>
Factory was not found to have a proper waste management system. Ex: Solid waste such as fabric wastes, papers, polythene covers were found to be dumped in a small shed in drive way.
<table>
<thead>
<tr>
<th>The assessment found Dimethyleformamide kept in screen printing area, it was noted that no MSDS available for Siricol having very low flash point.</th>
<th>Printing or screening process no longer happens in this factory. This process has been shifted to another facility C-128.</th>
</tr>
</thead>
<tbody>
<tr>
<td>During plant visit it was observed that contractor worker working on height approx 12 feet above ground level was not equipped with safety belt. The worker was working on fragile roof/temporary shed. It was noted that workers did not have proper footwear. Factory did not follow basic safety norms in repair and maintenance jobs.</td>
<td>There was no such incidence found on the day of investigation. However, factory monitoring team has appointed a safety officer since May 2013 to reduce and end such incidences.</td>
</tr>
<tr>
<td>Factory walk through and record review confirmed that factory has 3 generator sets with capacity 380 KVA, 250 KVA and 125 KVA and factory has not obtained DG set consent for these generator sets.</td>
<td>The issue has been closed. The factory is using three generators with capacity of 380 KVA, 250 KVA, 125 KVA and the photo below of the certificate says that the factory is following all the clauses of the Indian Electricity Rules, 1956.</td>
</tr>
</tbody>
</table>
Factory walk through confirmed that factory does not have ambulance room with qualified medical staff as required by Section 45, sub sec 4 of Indian factories Act 1948. 2. Factory walk thru confirmed that factory has an Ambulance Room for name sake but there is no nurse. There is also no crèche in the factory. A canteen to serve food to the workers has been made on the terrace.
provide canteen which serves food as required by sec 46 of Indian Factories Act 1948. 3. Factory walk through confirmed that, factory has not provided crèche as required by section 48 of Indian Factories Act 1948

<table>
<thead>
<tr>
<th>Cutting machine operator was seen using damaged mesh gloves. Chemical handling was done without Proper PPE's and operational controls</th>
<th>The issue has been closed. PPEs are being used by workers in the factory now, as illustrated in the photo below. For example, workers in the cutting section were using mesh gloves, workers in the spotting section were using masks etc. Over all the workers in different sections were using the appropriate PPEs.</th>
</tr>
</thead>
</table>

### 3. Issues related to compensation, in particular pay systems of piece-rate workers

Wage payment records of the workers from all the sections were seen and workers from all the sections were interviewed to understand their compensation system. The document review and all the interviewed workers confirmed that they are being paid above the legal minimum wage and their Provident Fund (PF) and Employee’s State Insurance (ESI) are being deducted from their wages. This is the case for both the factory’s on-roll workers as well as contract workers. The workers also confirmed that they are being compensated for overtime wages at the rate of twice their ordinary rate of wages.
Four workers during the off-site discussions also shared that they knowingly left employment in their previous factory (which was in the neighbourhood of this factory) because in this factory workers are given double rate for over time and they get their salary on time.

Management shared that they do not hire piece rate workers anymore but on discussion with workers it was brought forth that there are two workers in the cutting section who are engaged on piece rate work. These workers have been hired by Nitin Enterprises in the cutting section as highly skilled masters, who are being paid by the contractor directly. It is a prevalent practice that highly skilled workers prefer to work on piece rate basis as they can earn more in less number of hours because of their high skill and efficiency; therefore these two masters have been hired on piece rate. However, there are two major issues that could be seen in relation to compensation of these masters:

- First, the appointment letter mentions them as on salary of 8,500 rupees per month and in one master’s appointment letter the amount quoted was 70,000 rupees. This is a clear indicator that the documents are not being maintained as required and that workers have been made to sign incorrect documents.
- Second, the current wage record of the masters also shows they are being paid on monthly salary basis. This is again a wrong representation because both of them work on piece rate basis. Thus, factory has misrepresented the status of employment and wage payment of of the piece rate workers.

**ADIDAS IN-HOUSE SOCIAL COMPLIANCE MONITORING PROGRAM**

To understand the monitoring program of the Adidas in-house social compliance team, investigators looked into the relationship between the Adidas auditors and the factory management, frequency and thoroughness of the audit, audit methodology and the monitoring system. Management personnel at all levels were interviewed to take their inputs on the Adidas in-house monitoring/auditing process. The following management personnel were interviewed during the investigation:

- President of the factory
- The HR manager
- The compliance manager
- HR executive
- Two supervisors
- Health and safety personnel

(i) Relationship between the Adidas social compliance team and the factory management

All the communication between the Adidas social compliance team and the factory management is formal and through the mail. The social compliance team is cooperative during the audit; they are polite but not submissive and hold the confidence in their findings during the entire process of the audit. The audit protocols are clear and same for all the auditors. They carry their own meals or go
out to eat their meals, make their own travel arrangements and they are independently prepared for meeting their needs when in the factory premises. During interview with the management personnel at all the levels, they shared that Adidas’ audit process is clean and transparent and they have never faced any situation of auditors asking for favours or demanding any gifts from the factory management.

(ii) Frequency and thoroughness of the Adidas in-house audits

The audits are scheduled once a year but depending on the corrective action plan (CAP), the auditor can visit the factory other times also. From the previous audit history it could be seen that at times the auditor comes for a follow up audit according to the dates mentioned in the corrective action plan and such efforts are being appreciated by the factory management. The audits are unannounced and only the month of audit -- and not the dates -- are communicated to the factory.

(iii) Methodology

The audit process is standard, but before starting the meeting the auditor, when entering the factory, takes a quick factory round or an inspection, and then proceeds with the opening meeting, followed by management discussion, shop floor inspection, workers discussions, and document review, and ends the audit with a de-briefing of the findings in front of the factory management. The code of conduct (Adidas Code of Conduct) is followed as the audit scope and for the verification of the previous findings and identifying the new issues entails the regular audit.

For gathering information from workers, a random sample of workers is selected from all the sections. According to the discussion with the management during the investigation, Adidas in-house social compliance auditors interview 10-15 workers per floor. Workers are interviewed on the shop floor as well as in the conference room and the discussion with workers takes place in the private area without any presence of the factory management. Auditors’ attitude with workers is friendly and non-threatening and auditors do not create any tension or unwanted attention towards the workers.

A corrective action plan is prepared and put on the FFC platform along with the evidences of the closed issues. During the audit process, equal time is spent with the factory management and workers, and equal importance and focus is given to the document review and the shop floor observation. During the closing or de-briefing meeting the attitude of the auditor is affirmative and non-threatening while presenting the findings. The report is provided to the factory within a week from the day of audit. During the investigation, management shared that they have not faced frictions with the Adidas in-house compliance process and the team, but if they do not agree on certain findings they are free to put across their points.

(iv) Monitoring system

The follow up of the audits is done through a corrective action plan (CAP); the auditors visit the factory to check the status of the CAP implementation, e.g., it can be a surprise visit at any time by
the auditor based on the CAP dates. Adidas also organises training programs for the factory management to build their capacity.

(v) Awareness about Adidas monitoring process amongst the workers

During the discussion with workers they shared that they are not aware who the Adidas auditors are and they could not differentiate between the Adidas in-house auditors and other company auditors. The workers are not aware of Adidas hotline number.

Overall the factory management staffs were satisfied with the Adidas in-house monitoring process. It is detailed, strict and focussed on minute details. The auditors provide support to close the findings by providing on-site guidance and suggestions to the factory. The factory management mentioned that for Adidas in-house monitoring, transparency is the focal point around which the audit revolves and the worker discussions are equally comprehensive as the document review and management interview.

**CSO CONSULTATION**

To understand the status of labour rights in the garment industry in Noida, an interview was conducted with the Secretary of the Garment Export Workers Trade Union. The union has been active since 2007 and has approximately 6000 members. The issues common in Noida raised by the representative were that of workers not receiving Employee’s Security Insurance, Provident Fund, wages for overtime hours of work and non-functional grievance system and workers committee in most of the factories. Factory management do not allow workers to associate with any union and workers are in constant fear of losing employment if they chose to take union membership. Therefore, role of unions in the factories is very minimal. However, if a worker approaches the union with any complaint, then the union raises the issue to the factory management and also takes it to the appropriate government department.

Some major issues highlighted during the meeting with the trade union representative:

- The population of the contract workers is increasing in the garment industry in Noida and the trend of contractors is on a high rise. A common practice is that the contractor provides a higher number of workers than the actual amount of workers for which it is licensed. The PF and ESI is being deducted for the workers but the contractor does not submit the deducted PF and ESI amounts for the extra number of workers and when these workers try to collect their benefits they do not get them. Along with this there are other issues like lower payment than the on-roll workforce. The ID cards, appointment letters are not being provided to the contract workers. The contract workers are not being paid by the company and instead the contractor pays them through its vouchers creating opportunities to exploit the workers.

- The contractors are of two types: One, is the normal licenses contractor providing workers to the factory. Second, is the ‘factory management promoted contractors’, who are in alignment with the factory’s demands and conditions and in a way are factory-owned contractors and share relationship with factory to comply with their practices.
In the Noida region, the factories are exempted from the state government tax in the first five years of their functioning. Therefore, factories are work for five years under one name and after five years they change their name and get registered under a different name as to gain tax benefit for another five years. During this time the workers are re-hired but their compensation at the time of retrenchment is not paid, they are not even given the gratuity, so the workers suffer under such circumstances.

Enforcement by government departments is weak and therefore factories are running in defiance of law and order.