SOCIAL INSURANCE AND HOUSING PROVIDENT FUND CONTRIBUTIONS AT CHINA FACTORIES OPERATED BY POU CHEN GROUP

Verification Conducted by
the Fair Labor Association
July 2015
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EXECUTIVE SUMMARY

In April of 2014, workers at the Pou Chen Group, a Participating Supplier with the Fair Labor Association (FLA), went on strike in Gaobu, Dongguan, China, protesting that Pou Chen was not making the contributions for social insurance and housing benefits employers are required to pay under Chinese national law.

According to Chinese law, all employers must contribute on behalf of their workers in five categories of social insurance (basic pension, basic medical, unemployment, work-related injury, and maternity), and also make Housing Provident Fund contributions, to help workers meet their housing needs.

Enforcement of social insurance law is often weak or non-existent; sometimes local governments issue unlawful “waivers,” claiming to exempt employers from their obligations, or to adjust the required contribution levels. In recent years, workers have become more aware of their rights to receive these benefits, leading to strikes like the one at Pou Chen.

In response to workers’ demands, Pou Chen agreed to correct its social insurance and Housing Provident calculations moving forward, and also to provide retroactive benefits to all interested workers. In support of these efforts, Pou Chen also committed to other workplace improvements, such as training workers on the programs and improving communications.

Pou Chen began its remediation efforts in May of 2014, and the FLA agreed to conduct an independent verification of the Pou Chen’s progress one year after the plan was established. FLA staff spent four days in May 2015 assessing the implementation of the remediation plan at four Pou Chen factories in Gaobu supplying FLA-affiliated companies that employed more than 18,000 workers.

Verification Findings

The FLA assessed the following four parts of the Pou Chen remediation plan:

1. Task Force Offices and Training on Social Benefits – Assessors found that all four factories had established task force offices to manage the improvements to the social benefit programs, and to train Pou Chen workers on how to participate in them. Task force staff train department leaders, who then take responsibility for training workers. FLA assessors found that the task force offices had established effective training methods, such as publishing a weekly Q&A column to answer workers’ social benefits questions, but that workers’ awareness remained low on some key issues, for example procedures for using the Housing Provident Fund and the existence of maternity insurance.

2. Correct Social Benefit Payments, Current and Retroactive – Pou Chen now makes the correct social benefit payments on behalf of each worker, following the legal requirement to base social insurance payments on a worker’s pay during the previous month, and Housing Provident Fund payments on an average of the previous year’s monthly wage. Because the corrections to the social benefits procedure require workers to increase their own social insurance contributions as well, Pou Chen established a “Subsistence Allowance” program that supplements workers’ wages to help offset the decrease in workers’ accustomed amount of take-home pay.

At the same time, Pou Chen has established a robust system for providing retroactive payments for all workers who want them. For various reasons, not all workers wished to

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1 Find more on social insurance in China in the FLA’s issue brief:
2 Find more on the Housing Provident Fund in the FLA’s issue brief:
participate in the retroactive payment program. Because social benefits require contributions from both the employer and the worker – and workers must provide their own retroactive contribution in a lump sum – many workers surveyed by the FLA said that they could not afford to participate. Others stated that they chose not to participate because they doubted whether they would be able to access their contributions in the future. Overall, 30 percent of eligible workers participated in the retroactive social insurance program. At the time of the assessment, the retroactive social insurance program was nearly complete.

The retroactive Housing Provident Fund program, however, was just over half complete. Pou Chen has instituted a priority scale for workers to apply for retroactive Housing Provident payments, with 48 percent of workers still waiting for their turn to apply as of May 2015. Of those who had reached their turn, nearly 80 percent chose to participate. The FLA recommends that Pou Chen allow any worker choosing to leave the factory to participate in the retroactive contribution process, regardless of their turn, to avoid any workers missing out on this benefit that they have earned.

3. **Platform for Serving Workers** – To improve worker-management relations after the strike, Pou Chen committed to improve the resources available to workers to help them deal with any workplace issues. FLA assessors found that nearly a third of surveyed workers had used a new workplace center established by Pou Chen for this purpose, and that almost all workers were aware of its existence.

4. **Improved Communication with Workers** – FLA assessors found a number of communications channels in place for workers to communicate with management. All four factories offered some form of mobile app to provide workers with information and gather their feedback; each factory had established some form of regular worker-management meeting, and assessors found at least six channels for reporting grievances. Overall, 72 percent of surveyed workers reported their communications with their supervisors as satisfactory, 23 percent said they were normal, and three percent reported that communications were not good.

FLA assessors conclude that Pou Chen has made significant progress in addressing the issues that lead to the strike in 2014. Assessors also make some recommendations throughout the body of this verification report for ways in which Pou Chen can enhance its training program, improve some aspects of worker-management communications, and protect workers from missing their chance to participate in the retroactive Housing Provident Fund program.

**INTRODUCTION**

In April 2014, a major strike involving more than 40,000 workers took place in factories owned and operated by Pou Chen Group (PCG, also called Yue Yuen Group) located in Gaobu, Dongguan, China. PCG is affiliated with the Fair Labor Association (FLA) as a Participating Supplier. Striking workers protested that for years their employer had been making improper social insurance (SI) and housing provident fund (HPF) contributions. In response, PCG formulated a remediation plan that addressed workers’ demands for retroactive payment of the owed benefits, accurate payments going forward, and overall enhancement of the internal management system for SI and HPF contributions. In response, PCG formulated a remediation plan that addressed workers’ demands for retroactive payment of the owed benefits, accurate payments going forward, and overall enhancement of the internal management system for SI and HPF contributions. PCG started to implement the remediation plan in May 2014.
The FLA agreed with PCG to perform an independent verification of the implementation of the remediation plan in the Gaobu factories about a year after the plan had been put in place, and to issue a public report with the results of that verification. The verification exercise and associated report was intended to help PCG, its factories, its buyers, and other interested parties to evaluate PCG’s progress against the remediation plan.

The verification exercise, conducted by FLA staff based in China, focused on PCG’s remediation plan with respect to the following key areas:

- Establishment of Task Force Offices and training on SI and HPF;
- SI and HPF retroactive payments and accurate payments moving forward
- Creating an information platform to serve workers
- Strengthening communications with workers

**METHODOLOGY**

The verification relied on document review, management interviews, worker interviews (both inside and outside the factory), and a worker survey to gauge the extent to which the remediation plan has been executed and its impact on workers.

The verification activities conducted by the FLA team covered all three PCG campuses in the town of Gaobu and PCG’s local administration center, focusing on selected factories that supply FLA-affiliated participating companies. The FLA team spent four days conducting fieldwork within and around the selected factories. A summary of the level of effort and scope of the verification is provided in Table 1.

- **Document review** included PCG’s and selected factories’ policies/procedures, training logs, and social insurance and housing provident fund payment manifests.
- **Management interviews** covered company’s and selected factories’ senior management, task force members, and factory-level supervisors.
- **Worker interviews** and worker surveys were conducted inside selected factories and off-site. PCG provided FLA with an up-to-date profile of factory location in the Gaobu area and worker population of each.

The number of workers sampled was based on a confidence level of 95 percent and at a confidence interval of +/- 5 percent. The sample was selected using a stratified random sampling method. The FLA team gathered information on workers’ gender and occupations, randomly selected a number of workers proportional to the size of each gender and occupation group, and pooled all the subsets together as the random sample.

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3 Shaotan Campus, Dichong Campus, and Shangjiang Campus.
Interviews and surveys were conducted both on-site and at off-site locations like workers’ dormitories, canteens, and the gate of the campus. Interviews and survey responses were recorded on tablet computers based on a survey questionnaire developed specifically for this verification by FLA staff. Workers were invited to provide information they would like to share at the end of each survey. Typically, a worker spent 15 minutes or less for each survey. Detailed information on the demographics of the workforce subject to interviews and surveys are given in Table 2.

### TABLE 2: CHARACTERISTICS OF WORKFORCE SUBJECT TO INTERVIEWS & SURVEYS

<table>
<thead>
<tr>
<th>Total number of workers</th>
<th>407</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>% male</td>
<td>34.6%</td>
</tr>
<tr>
<td>% female</td>
<td>65.4%</td>
</tr>
<tr>
<td>Average age (years)</td>
<td>38.9</td>
</tr>
<tr>
<td>Employment by occupation</td>
<td></td>
</tr>
<tr>
<td>Operators (%)</td>
<td>79.8%</td>
</tr>
<tr>
<td>Line leaders/supervisors (%)</td>
<td>17.2%</td>
</tr>
<tr>
<td>Others (%) *</td>
<td>3.0%</td>
</tr>
<tr>
<td>Average tenure (years)</td>
<td>7.9</td>
</tr>
<tr>
<td>Migrant workers (%)**</td>
<td>96.8%</td>
</tr>
<tr>
<td>Married workers (%)</td>
<td>89.9%</td>
</tr>
</tbody>
</table>

* Engineers, non-production workers, etc.

** The FLA’s Workplace Code of Conduct defines a migrant worker as a person who migrates or who has migrated from one country to another, or in some cases between regions or provinces of a country, with the specific purpose of exercising an economic activity from which they will receive a wage. In this verification, the migrant workers are internal migrants.

### VERIFICATION FINDINGS

The FLA verified factories’ implementation of the four key areas of the PCG remediation plan (task force offices and trainings, payment of social insurance and HPF [including retroactive payment], an information platform for workers, and improved communications). For each key area, this report briefly introduces the remediation plan followed by the progress PCG has made, as well as any “potential risks” (areas where further improvement is needed to achieve long-term and sustainable results) and corresponding FLA recommendations.

#### Part I. Task Force Office and SI & HPF Training

Pou Chen Group has established task force offices at the local administration center and at each of its production areas to provide general support and coordination for factories on human resources issues and other cross-cutting topics. FLA assessors visited the local administration center and selected factories in the town of Gaobu.

After the strike occurred in April 2014, PCG planned to establish task force offices (TFOs) at the local administration center and at the production units to manage the social insurance and housing provident fund back payments, considering the very large number of workers involved. Additionally, PCG intended to provide training on social insurance and housing provident fund benefits and retroactive payment procedures for task force office members at the local administration center and factories and also for the general workforce.

#### A. Task Force Offices

During the verification, the FLA team reviewed the structure of the task force office at the local administrative center (see Organization Chart below), visited the task force offices at factories, and interviewed a number of task force members at the two levels.
The task force office at the local administration center is composed of 24 staff members; in addition, PCG headquarters deployed seven senior staff members from the Sustainability Development Team to remotely support the regional team in planning and to provide guidance. A senior staff member at the local administration center serves as a point of contact with local authorities.

The task force office at the administration center is divided into three teams, of which two are tasked with proceeding with the retroactive payments of social insurance and housing provident fund, respectively, while the third team is charged with providing communication and training for the factory level task force team.

Each factory unit’s task force office followed closely the organizational structure of the task force office at the administration center. The FLA verification team visited four PCG factories in the Gaobu region (AB, G8, S1, and S6) and observed that factories AB and S6 each had a dedicated task force office, while factories S1 and G8 shared the offices with other departments such as HR and Sustainable Development due to their relatively smaller worker population. Several staff members were observed working in factory task force offices that were equipped with facilities to deal with retroactive payment registration and distribution of social insurance information; FLA assessors also observed that the retroactive payment procedures were posted in the offices.

Staff members working in one of the factory task force offices.
B. SI & HPF Training

PCG has conducted a series of trainings on retroactive payments of SI and HPF. The factory-level task force office provided training for department leaders and their assistants; subsequently the department leaders and assistants provided training and communications for the workers in their departments. The main flow of trainings is as follows:

<table>
<thead>
<tr>
<th>TRAINING SESSIONS</th>
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</thead>
<tbody>
<tr>
<td>25/04/2014</td>
</tr>
<tr>
<td>02/05/2014</td>
</tr>
<tr>
<td>19/05/2014</td>
</tr>
<tr>
<td>16/06/2014</td>
</tr>
<tr>
<td>26/06/2014</td>
</tr>
<tr>
<td>13/08/2014</td>
</tr>
</tbody>
</table>

At the level of central administration, the staff has conducted six training sessions, which lasted for five months in total. The first session took place on April 25, 2014 for around 100 employees, including staff members from the administration center and task force office members from all factories. The training covered issues such as how to adjust social insurance base contributions base adjustment and procedures for retroactive payment. At the factory level, no records of training were maintained, as the training was conducted as part of group meetings; more than 70 percent of the workers attended the training, according to the worker survey conducted by the FLA.

The verification team found that the company collects social insurance questions from workers, and publishes a weekly Q&A report that incorporates information gathered from local officials and the Social Insurance Bureau.

According to the worker survey and document review, training materials focused on the retroactive payments procedures for SI, with parallel information for the HPF being less prominent. A relatively large share of the interviewed workers considered housing fund contributions as a fixed-term deposit -- rather than a social benefit -- that aims to help low- or middle-income workers rent or purchase a home. Very few workers could recall more than three conditions under which housing funds could be withdrawn (local regulation outlines 12 conditions). Additionally, worker and supervisor interviews also revealed that line leaders and supervisors understood less about the HPF than factory task force office members.

The worker survey revealed that 34.4 percent of respondents are still not clear whether social insurance and housing provident fund contributions are based on their actual earnings. Also, more than 90 percent of female respondents are unaware of maternity insurance.
**PROGRESS**

- Task force office has been set up at factories and PCG has allocated substantial efforts and resources to manage the retroactive payments.
- Trainings on SI and HPF have been provided for task force staff and workers; the task force office staff members demonstrated they have good knowledge and understanding of both.

**POTENTIAL RISKS**

- Training focused more on retroactive payment procedures than on the social benefits and withdrawal conditions, particularly for housing provident fund and maternity insurance. This was reflected in workers’ low awareness.
- Supervisors may not be the best-suited personnel to deliver training on complex social insurance and housing provident fund issues for a massive workforce.

**FLA RECOMMENDATIONS**

- PCG should update training materials by adding SI and HPF benefits and withdrawal conditions.
- Staff from the factory task force office should provide the trainings for workers and supervisors.

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**PART II. SI & HPF Retroactive Payments and Current Payments**

PCG began to make retroactive SI and HPF payments in June 2014. All of the 44,146 workers employed by PCG before the strike on April 30, 2014 are eligible to receive retroactive payments. At the time of the verification, social insurance retroactive payments were almost coming to an end, while housing provident fund payments were still in process. PCG also committed to accurately pay into these two social benefit programs going forward.

Not all eligible workers opted to receive retroactive payments. According to worker surveys conducted by PCG in May 2014, between 30 and 50 percent of workers at each factory expressed an interest in the retroactive payment programs. Similarly, FLA management interviews and worker surveys found that less than 50 percent of the workers wishing to participate, citing the following concerns:

- Changes in policies and concerns about access to the premiums. For example, the Dongguan Housing Provident Fund Authority issued a new regulation that would restrict withdrawals of HPF after March 1, 2015.

- One of the conditions of receiving a basic pension after retirement is to have contributed premiums for at least 15 years. For some of the workers, their cumulative contribution period will not reach 15 years before retirement even with retroactive payments.

- To receive retroactive employer contributions to social insurance, workers must also retroactively pay their share of the contribution. Making this lump sum payment is difficult for workers, and payment by installments is not allowed.

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4 Article 16, Social Insurance Law of the People’s Republic of China (2011)
A. Retroactive Social Insurance Payments

Out of the 44,146 eligible workers, 13,194 (30 percent) have applied for retroactive SI payments. Figure 1 shows the progress of the program. The FLA found that 70 percent of workers have not applied for retroactive payments -- a higher level than originally suggested by Pou Chen's early surveys to gauge worker interest. The FLA found that two percent of workers dropped-out after applying for the program.

Worker surveys and management interviews indicate that the two principal reasons for never applying to participate in the program or for dropping out is that workers doubt they will eventually be able to claim the benefits, or they can't afford to contribute to the programs.

Retroactive contribution policies used by PCG are based on regulations by local government. Guangdong Province introduced social insurance regulations in November 1998. For the period November 1998 to June 2006, the contribution base was a fixed amount, determined by the local authority; after July 2006, contributions were to be based on the worker's actual earnings.

During the period when insurance regulations were in force in Guangdong, there were times when Pou Chen workers received no social insurance payments from their employer (and made no contributions of their own), and times when social insurance payments were made (by both Pou Chen and workers), but they were too low - calculated from an incorrect base-payment rate.

Figure 1: Social Insurance Retroactive Contributions - Overall

Figure 2 shows that 81 percent of the applicants have completed the SI retroactive contribution process and 16 percent of them are still ongoing.
To correct these errors, Pou Chen offered workers a number of options that they could customize in a way that best meets their own financial needs and concerns.

For any period when workers did not receive any contributions, workers could choose to receive full retroactive payments, calculated from the correct base rate. Workers could choose to deploy this option for all years they had not received any contributions, or for only a portion of that time.

For any period when workers received contributions that were too low, workers could choose retroactively to increase their calculation base, and receive payment for the difference. Again, workers could choose to deploy this option for all, or only some, of the time that their contributions had been too low.

Figure 3 shows that 19 percent of participants chose to implement a full and complete restoration of lost benefits, by choosing both to receive payments for all years when social insurance was not paid, and to adjust the contribution base for all years when the payments were too low. Another 79 percent of participants also chose to receive payments for the all years when social insurance was not paid – but did not choose to adjust their contribution base for any years their contributions were too low.

These 98 percent of participants who chose retroactive payments all years when social insurance was not paid increase their chances of eventually being eligible to withdraw retirement funds, which become available after a worker has contributed for 15 consecutive years and reached the statutory retirement age.5

FLA assessors determined that the SI retroactive contribution process at PCG has been carried out in an orderly and effective way. Eligible workers have been provided information about their options and given the opportunity to choose. At the time of the verification, the SI retroactive payment process had 14 percent of applicants still involved in the process.

Social insurance retroactive payment statistics for the four factories involved in the verification are provided in the Appendix.

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5 Social Insurance Law of PRC, Article 16: An individual participating in the basic endowment insurance shall receive a monthly basic pension provided that he/she has contributed premiums for a cumulative period of 15 years or more when he/she reaches the statutory retirement age.
B. Retroactive Housing Provident Fund Contributions

Pou Chen’s retroactive payment policy for HPF establishes that workers can request payments going back to June 1999, in accordance with legal requirements. Considering the large size of the work force, Pou Chen has set some priorities regarding processing of retroactive HPF payment (see box). It is possible that some workers who fall into the third priority category (a very large group) may not reach their turn to request HPF contributions before they leave the factory, and therefore might lose this benefit. Management explained that the monthly turnover rate is around six to seven percent, so that HR staff process the departure of approximately 2,000 workers every month. They say that if retroactive HPF contributions were also included as part of the exit processing, this would impose a huge workload on HR personnel.

Figure 4: HPF Retroactive Payment - Overall

As shown in Figure 4, of 44,146 eligible workers, 52 percent have reached their turn to apply for HPF back pay. Of those, 18,285 workers or 79.7 percent have applied for retroactive payments, a higher percentage than for social insurance. Further, as shown in Figure 5, around 78 percent of the applicants have finished their application procedures, while 17 percent are still in process. A small share of the applicants, five percent, have dropped out. Lack of money and uncertainty on whether they would be able to access their premiums are the main reasons why they dropped out of the process. These same reasons also applied to those who have never applied.

Figure 5: Retroactive HPF Payments - Among Applicants

Retroactive HPF Payment Priority

1) Worker who is retiring within two months
2) Worker who receives an extra month’s wages when the employer dissolves the labor contract
3) Based on when the worker joined the factory
4) Workers transferred from sister factories
Years of service and contribution base are also relevant to retroactive HPF contributions. Different from SI, HPF personal accounts consist of individual contributions and employer contributions. In another words, workers get twice the level of their contributions to HPF in their own accounts. This explains why the number of retroactive HPF payment applicants is much higher than SI back payment applicants. As almost none of the workers had contributed to HPF in the past, 100 percent of the applicants applied for retroactive payment based both on years of service and contribution base.

Housing Provident Fund retroactive payment statistics for the four factories involved in the verification are provided in the Appendix.

C. SI & HPF Payments Going Forward
Since May 2014, PCG has been making full contributions to the SI and HPF, with 100 percent coverage for workers. PCG uses workers’ last month’s wages as the social insurance contribution base, and the HPF contribution base is aligned with the average monthly wage of last year, consistent with legal requirements.

PCG has also provided since 2014 a “Subsistence Allowance”6 (230 CNY per month) to every worker. Although factory management did not specifically state that this allowance is intended to cover workers’ loss of take-home income because of the change in the pay base on which the contributions are calculated, 75 percent of respondents hired before May of 2014 stated that they understood the allowance was for this purpose. This suggests that PCG has made a significant effort not only to meet legal contribution requirements but also to maintain workers’ take-home income.

PROGRESS

- The application process for social insurance has ended, with 86 percent of applicants’ retroactive payments completed at the time of verification. For the Housing Provident Fund, 32 percent of workers had applied for and received retroactive payments, with 48 percent still waiting their turn to apply (others were in process, dropped out, or never applied).

- Since May 2014, PCG has contributed in full to both SI and HPF, correctly calculating SI contributions based on the previous month’s wages and HPF based on the previous year’s average monthly wage.

- PCG has established an allowance program to help offset the decrease in workers’ accustomed amount of take-home pay caused by fully contributing to social insurance.

POTENTIAL RISKS

- Prioritizing workers based on tenure to receive their retroactive HPF contributions creates the potential risk that departing workers will either not ask for HPF retroactive pay or delay their departure from the factory in order to wait their turn.

FLA RECOMMENDATIONS

- PCG should grant eligibility for retroactive housing provident fund contributions for workers who want to resign regardless of their turn.

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6 This allowance covers 57 - 100 percent of the added SI & HPF contribution for 80 percent of the total workforce.
Part III. Platform for Serving Workers

In addition to establishing a task force office to manage retroactive contributions, PCG management felt that a platform was necessary to provide services or help workers to address their work- and life-related concerns.

While management is aware that social benefits are one of the key issues that concern workers, there are other important areas that matter to the workforce, for example, how to understand the wage structure, working hours arrangements, process to apply for leave, the resignation process, health and safety, workplace discipline, food service, dormitory quality, and so on. The proposed platform would play this role. Management also planned to set up a direct hotline for workers to facilitate their raising their concerns and needs.

A. Platform and Hotline

The “Life Instruction Room” (see photo) was built by PCG to provide services and help workers to deal with their work- and life-related issues. The “Life Instruction” concept is not new to PCG, but management has decided to strengthen and recast this mechanism so that the Room not only addresses workers’ concerns but also supports implementing the company’s corporate social responsibility programs.

Consequently, “Life Instruction” was recently upgraded and expanded to “Sustainable Development” (SD) by management. Currently, the “Sustainable Development” department consists of the labor; worker welfare; health, safety, and environment; and energy divisions. The function of “Life Instruction” has been incorporated into the labor division.

Based on the worker survey, the overwhelming majority of workers (93.9 percent) are aware of the “Life Instruction Room,” with 32.9 percent of respondents noting that they had come to this room for help at some time in the past. Of those, around 72.4 percent expressed that their problems had been fully resolved and 22.8 percent that their issues had been partially resolved.

Factories have also set up direct hotlines (four-digit internal phone number) for workers to address their concerns, confidentially under some circumstances. The worker survey also revealed that nearly half of workers are able to clearly recall the direct line number; the FLA team also found that many of those who did not remember this number were willing to reach this platform by themselves. According to worker interviews, all of the workers in factories S1, S6, AB and G8 are aware of the locations of the “Life Instruction Room.”

B. Assigning Qualified Staff to Service Workers

The staff members assigned to the platform to help workers are able to answer questions related to recruitment, working hours,
compensation and benefits, termination, workplace conduct, grievances, and labor relations. For health and safety topics, the staff in the HSE division provides immediate support as they are also in the SD department.

A seven-day training course on Employee Relationship (ER) was provided for the staff in the “Life Instruction Room” by headquarters staff in August of 2014. The training aimed to enhance their skills communicating with workers. According to the training plan, this type of training will be held in July/August each year.

**Part IV. Strengthening Communications with Workers**

This last key area of the remediation plan is strengthening communications with workers. Communication falls into three categories: internal grievance system, meetings between management and workers, and ongoing communication channels.

The FLA expects factories to have clear and transparent systems of worker and management communication that enable workers to consult with and provide input to management, and also to have a mechanism that allows workers to report grievances confidentially.7

**A. Grievance System**

Each of the visited factories has established grievance policies and procedures that apply to the entire workforce. The policies allow workers to report complaints and grievances confidentially and also ensure non-retaliation.

Based on the document review of grievance policies, there are multiple channels in place, such as direct settlement between a worker and his or her line supervisor, suggestion box, QQ (a mobile app), the “Life Instruction Room,” the trade union, and the senior management at the administration center. If a given channel fails to produce a settlement, workers are allowed to use alternative methods. Normally, the factory replies to the complainant and provides solutions within seven to ten days; an outcome takes one month at maximum in the event of complicated cases.

7 FLA Workplace Code and Benchmark Employment Relationship ER.25.
The grievance system has been a key part of orientation trainings for new workers and ongoing training for the existing workers, as set out in the factories’ annual training plans. FLA verified through document review and worker interviews that almost all workers have received this training.

The grievance procedure is not only included in the Employee Handbook—which has been distributed to workers—but also posted next to the suggestion box (see photo) and on the notice boards at production sites which are easily accessible to workers.

The worker survey revealed that 87 percent of respondents are aware of the grievance channels. The table below lists the top five grievance channels, the degree to which workers are aware of them, and the percentage of workers who have used them.

Based on the survey responses, workers preferred to raise their complaints face-to-face or directly with the responsible staff and their leaders. Assessors reviewed the grievance logs at four factories, which also showed that the most frequently used channel was face-to-face contact.

<table>
<thead>
<tr>
<th>GRIEVANCE CHANNEL</th>
<th>% RESPONDENTS ARE AWARE OF</th>
<th>% RESPONDENTS HAVE USED</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Life Instruction” Room</td>
<td>70.3%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Line leader/supervisors</td>
<td>68.6%</td>
<td>43.2%</td>
</tr>
<tr>
<td>Suggestion Box</td>
<td>24.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Trade Union</td>
<td>17.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>QQ+ other Mobile Apps</td>
<td>13.4%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
Furthermore, among the workers who lodged grievances, 77.6 percent noted their issues were fully resolved, 20.5 percent said they were partially resolved, and the rest (1.9 percent) reported the result was unsatisfactory.

During the management interview, the FLA team asked whether workers had filed grievances related to SI and HPF. Management responded that around 10 workers have complained about retroactive HPF contributions. These workers complained that they could not apply for contributions when they wanted to resign because it was not their turn according to the factory’s policy. The complaints were not resolved at the factory level and finally reported to the Administration Center. The factory eventually treated these as special cases and allowed the workers to apply. In this instance, the grievance handling process operated exactly as designed -- if the procedure fails at the factory level, then the conflict moves up to a higher level (the administration center) and eventually it had a positive result.

The FLA team found, however, that there is need for improvement in the area of grievance recording.

**B. Meetings between management and workers**

Since the strike, PCG has aimed to enhance the communication between workers and management and has developed a plan whereby factory managers hold meetings with worker representatives on a quarterly basis. The FLA team verified that these meetings were held in all of the selected factories (S1, S6, AB and G8) even more frequently than originally planned. Meetings covered many topics, such as fringe benefits (annual leave, housing provident fund), health and safety, food service, caring for special categories of workers (pregnant, lactating, and disabled), workers’ transportation to hometown during Chinese New Year, childcare, and others.

In factories AB and G8, workers were asked about their willingness to participate and invited from the production lines prior to each meeting. Worker interviews revealed that a large number of workers in these two factories are aware of this type of meeting with management, as they either have participated in them or were aware of co-workers who were invited to attend.

In factories S1 and S6, however, meeting attendees were selected by roster. Thus, some of the workers do not know the substance of the quarterly meetings because they have not been chosen or because they do not know the co-workers who have attended the meetings.

The approach of worker selection in factories AB and G8 was more interactive, which is likely to lead to higher workers’ awareness and more effective worker integration. For instance, there were numerous examples of workers’ input recorded in the minutes of one meeting held at factory AB, while there was scant evidence of worker input in the meetings at factory S1.

**C. Ongoing Communication Channels**

*Group meetings*

This type of meeting is held around the start or the end of the work day. Worker interviews revealed that this is one of the key ways for workers to obtain important news from the
company. As described above, the trainings on retroactive SI and HPF contributions were delivered via group meetings. Usually group meetings happen at least three times each week, and last about 10-15 minutes.

**Posting**
Assessors observed that all four visited factories (AB, G8, SI and S6) have posted policies and procedures in locations accessible to workers, including, important information such as the latest local minimum wage adjustment, leave application processes, SI and HPF procedures, health and safety instructions, Codes of Conduct of sourcing brands, and so on.

**Mobile APPs**
The “Knowing Welfare” and “Knowing Knowledge” Mobile Apps project was launched in factories AB and G8 six months ago. The project was initiated by one FLA-affiliated company.

The “Knowing Welfare” App is able to disseminate the company’s newsletter, policies, and procedures to workers and is also equipped with a working hours function and leave application request documents, along with a messaging channel to management. Workers are encouraged to learn the content, make comments, and raise questions. The management team periodically collects the queries as well as the suggestions and provides on-line feedback.

A test questionnaire related to the topics delivered in Orientation Training is housed in the “Knowing Knowledge” App; workers are entitled to a gift if they pass the test.

Associated with this project, there is an online service through which management staff answers questions and concerns from workers online from 7:00pm to 8:00pm each Friday. This Mobile Apps project and online live inquiring are currently being used in factories AB and G8 only.

Through May 2015, around 50 percent of workers in factories AB and G8 had downloaded the two Apps. Meanwhile factories S6 and S1 have adopted a similar system, QQ Chat Group, to deliver factories’ information to group members; around 16.5 percent of workers in these two factories have become QQ Group members.

**D. Worker Satisfaction on Communication**
Overall, 72 percent of respondents noted that their communications with their supervisors were satisfactory, 24.3 percent said they were normal, and three percent reported that communications were not good. Additionally, 16.3 percent and 43.1 percent of respondents stated that communication between management and workers has improved a lot and a little bit, respectively, over the past year (since the strike). In short, nearly 60 percent of workers feel that communications have improved.

Figure 6 shows workers’ perceptions regarding communications with their supervisors in the four factories. According to the data, workers’ satisfaction with factories’ communications ranged from just below 59.1 percent to about 77.6 percent, with factory AB showing the highest level of satisfaction.
**PROGRESS**

- PCG maintains a functional grievance system.
- Worker engagement includes quarterly meetings between management and workers held at factories.
- Multiple ongoing communication channels are in place; Mobile Apps have been introduced to provide timely information.
- The majority of workers report satisfaction with the communications between them and supervisors, and view the communication as having improved over the past year.

**POTENTIAL RISKS**

- The maintenance of grievance records needs improvement. Incomplete grievance recording creates the risk that management may not have an overview of grievances, lacking of complete information for in-depth analysis.
- In two factories, the selection of worker representatives for attending worker-management meetings lacks worker interaction; as a result, most workers in these two factories are not aware of this worker-management engagement venue.

**FLA RECOMMENDATIONS**

- Factories should collect grievances from all the channels, maintain accurate records, and prioritize the most important and urgent issues.
- Two of the factories should optimize the approach of worker representative selection for the manager-workers meetings.

*Figure 6: Workers’ perception on communication between workers and supervisors by factory*
ADDITIONAL FINDINGS

In addition to verifying the implementation of the remediation plan, the FLA made additional observations during the field visit. One set of observations is related to the union at the Pou Chen Gaobu factories. The other observations relate to workers’ perceptions of the SI and HPF system, as gathered from the FLA’s worker survey.

Trade Union

The unions at PCG’s Gaobu factories were established in 1997, but at the time of the strike -- 17 years after establishment – only three percent workers were union members. To some extent, the April 2014 strike was a function of the union’s limited role in the factory. At the time of the FLA verification one year later, 66 percent of workers at PCG’s Gaobu factories had become union members and given their written consent.

As part of the verification, the FLA team learned from the PCG Gaobu union chairman that ACFTU unions in Guangdong Province, Dongguan City, and Gaobu Town, have been providing the PCG Gaobu union with guidance on union membership enlargement and elections. The chairman of the Federation of Unions of Guangdong Province has also visited the Gaobu factories a number of times since the strike to receive updates on progress regarding union development.

In the four selected factories, 45 percent, 40 percent, 18.9 percent, and 10.6 percent of union representatives were normal workers in factories S6, S1, AB and G8, respectively, with the rest being either supervisors or occupying management positions. The union representatives were either recommended by production team leaders or self-recommended. The union representation elections are informal: leaders host a gathering and workers usually raise their hands to vote for the representatives.

According to the worker survey, sometimes workers were busy with their work and did not participate in the election. Also, around 38 percent of respondents noted they were not aware of the union representation election, and 9.3 percent of respondents thought the election did not matter to them.

Union representatives vote for union committee members. The four selected factories have a union committee of 10 to 20 members, depending on their individual union member population. Committee candidates were mainly hold-overs from previous committees, with only a few new representatives added either through recommendation by management or self-recommendation. No production line workers have been elected as committee members in the four factories. The workers survey revealed that only 18 percent of respondents were aware of the factories’ union committees; the remaining 82 percent either did not know the purpose of the union committees or who forms such committees.

The factory unions organized two to three internal meetings in each of the selected factories in the past ten months, and met just as often with factory executives. Discussion topics have included improvement of food and dormitory services, free health check-up for female workers, medical insurance premiums, supervisors’ management skill improvement, and recreational and sports activities. As an outcome of these meetings, beginning June 2015, PCG will provide free health check-ups for female workers and more dormitory rooms designed to accommodate worker couples.

The Pou Chen Gaobu Federal Union committee was established in October 2014. It held a meeting with Pou Chen local executives in November 2014, to discuss facilities for union activities, a caring fund, and workers’ transportation to their hometown during the Chinese New Year.
In February of 2015, the Dongguan Housing Provident Fund released a new regulation that limits worker cash withdrawals from the fund for contributions made after March 1, 2015. This new regulation raised immediate concerns among workers participating in the retroactive HPF payment plan, who wanted assurances that funds that should have been deposited before March 1 would be treated as if they had been correctly deposited on time. The Pou Chen Gaobu Federal Union took immediate action, reaching out to the Guangdong Federation Unions and the Dongguan authority to address workers’ concerns. This effort was ultimately successful, and workers’ retroactive payments are exempted from the new regulation.

Currently the union is also involved in many aspects of the company’s policy development efforts. For instance, the union is being consulted in the drafting of a new version of the Employee Handbook. Additionally, the union is also involved in operational activities; for example, pursuant to the factories’ disciplinary procedures, each disciplinary action against workers must be reviewed by the union before it is imposed.

The FLA team also learned that the union and factory management had signed a collective bargaining agreement (CBA) in 2012, which expired in May 2014, though nearly three-quarters of workers surveyed were not aware that a CBA had existed. The union chairman told the FLA team, and factory management agreed, that a new collective bargaining agreement will be negotiated by October 2015.

This process will be made easier by the new Regulation on Collective Bargaining Agreements, effective in Guangdong Province on January 1, 2015. This new regulation allows workers to negotiate their terms of employment through representatives who speak on their behalf, providing the official unions with greater power to initiate negotiations with management.

PROGRESS

Although the union committee is still dominated by management members, the following positive actions indicate progress:

• more workers have enrolled in the union.
• more regular workers have become union representatives than in the past.
• factory unions are negotiating with factory management to improve workers’ welfare.
• The PCG Gaobu Federal Union helped workers resolve the housing provident fund withdrawal issues arising from new local regulations.

POTENTIAL RISKS

• A large number of workers stated that they did not participate in the union representation election.
• A higher percentage of supervisors/managers sit as union representatives than regular workers.
• All union committee members hold management positions.
• Most of workers are not aware that a CBA has existed.
• The CBA expired a year ago and has not been renewed yet.
FLA RECOMMENDATIONS

• The factory’s trade union should communicate widely with union members on the representation elections prior to their being held, and to include representatives from all work shifts when making representation elections.

• More workers should be encouraged to be candidates for union representation and union committee positions.

• Union representation and union committee elections should be free from management interference.

• The trade union should develop a detailed plan and agenda for the upcoming collective bargaining with Pou Chen executives in October of 2015.

• Once the new collective bargaining agreement is signed, the factory and the trade union should communicate on its content to the entire workforce and provide copies of the CBA to the workers.

Highlights from Retroactive Payment Statistics and Worker Survey

Social Insurance v. Housing Provident Fund
At the time of verification, 79.7 percent of eligible workers who had reached their turn had applied for retroactive HPF payments, while only 30 percent of eligible workers had applied for retroactive SI contributions.

Marital status
While on average 30 percent of the total eligible workers applied for retroactive SI contributions, according to the worker survey, 50.2 percent of married workers applied compared to 19 percent of single workers. As for HPF, 67 percent of married workers applied, compared to 28.6 percent of single workers.

Figure 7: % within the group who applied for retroactive contributions
Age
Survey results indicate that none of workers below 20 years of age applied for retroactive contributions, with the interest in participating increasing with age. At age 35 years or older, around 50 percent of workers opt for retroactive SI contributions and 70 percent of workers for HPF. (see Figure 8).

![Figure 8: % within age group applied for back pay](image)

Reasons not to apply
The top reasons for workers not applying or dropping out of retroactive SI and HPF contributions are given in Figures 9 and 10, respectively. Top reasons include the impact on personal finances, uncertainty about receiving benefits, and complexity of the pay back schemes. Many young workers report that social benefits (especially pension benefits) are not an important consideration, and some older workers are unlikely to be able to meet the minimum 15 years’ cumulative contribution requirement for pension benefits.

![Figure 9: Primary reasons for not applying or dropping out - Social Insurance](image)
Reasons for partial participation
As mentioned in Part II, 80 percent of applicants chose partial retroactive contributions for SI; according to the worker survey, 49.6 percent of this group of workers thought years of payment into the system is more important than the contribution base. An additional 40 percent of respondents indicated they would have financial concerns if they applied for retroactive contributions in full (see Figure 11). All workers applied for HPF contributions in full.
Workers’ Perception of Social Insurance and Housing Provident Fund System

Workers were requested in the survey to give their opinions on both systems using suggested multiple choices. Figures 12 and 13 below list the top five comments provided by respondents. Nearly 60 percent of respondents felt the SI and HPF schemes are helpful for their lives.

![Figure 12: How do you feel about the social insurance system?](image)

- Worry about the changing policy that would affect the claim: 5%
- It’s hard to comment: 5%
- Contribution is a burden: 6.9%
- Claiming or transferring of benefit is complicated: 41.1%
- It’s helpful/useful: 56.2%

![Figure 13: How do you feel about the housing provident fund system?](image)

- It’s hard to comment: 2.5%
- Contribution is a burden: 4.4%
- Worry about the changing policy that would affect the claim: 8.0%
- Claiming or transferring of benefit is complicated: 49.6%
- It’s helpful/useful: 58.9%

Nearly half of the workers consider that the claiming or transferring of benefits is complicated. The historical complexity of the fund claim procedures may deter workers, especially migrant workers, from making claims, a conclusion reached in previous FLA assessments in China and included in the housing fund issue brief FLA released prior to this investigation. Only a small portion of workers considered contributions as a burden for them.

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8 http://www.fairlabor.org/report/housing-provident-fund-china
CONCLUSION

Over the past 12 months, PCG has made significant progress in addressing one of the most challenging issues affecting the Chinese labor market today – social insurance and housing provident fund concerns. In the aftermath of a strike at its factories in Gaobu in April 2014, PCG has implemented corrective actions to meet workers’ demand of accurate payment of social benefits going forward and of providing retroactive contributions -- and has allocated substantial human and financial resources to do so. In taking these actions, PCG has taken a leadership role and serves as an example of how to address difficult social insurance issues in China.

The majority of workers who participated in a survey conducted by the FLA team at PCG factories indicated that social benefits (social insurance and housing provident fund) are helpful and useful for their lives. The increased awareness on the part of Chinese workers regarding such benefits and their proper payment – which was one of the reasons behind the April 2014 strike at Pou Chen – seems to be spreading. In March 2015, approximately 5,000 workers at a Stella International shoe factory in Dongguan organized a strike demanding proper payment of benefits, including Housing Provident Fund contributions.9

The FLA team found that nearly half of the workers interviewed expressed concern about lack of enforcement at the local government level and overall confusion within the social insurance and housing provident system around how migrant workers can access their premiums when they move to other work locations or return to their hometowns. In fact, migrant workers’ largely negative experiences with the system, combined with some workers’ preference to avoid making their own contributions (and therefore maximize short-term income), can lead to workers acquiescing to employment situations that fail to comply with the law.

In the current case, PCG and its customer brands have made plans and expended significant resources to achieve full compliance with legal requirements with respect to social benefits. As a long term strategy, in addition to holding brands and suppliers accountable for meeting domestic law, the FLA plans to work with local governments, civil society organizations, and other multi-stakeholder initiatives to develop sector-wide solutions that ensure that workers receive the promised benefits critical to improving their lives.

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9  http://www.chinalaborwatch.org/newscast/430
PCG began back payment of SI and HPF in June 2014 and is still in the process of doing so, as back payments for such a large number of workers is quite complex and time-consuming. Back payments apply to those workers who had been working at PCG before April 30, 2014. There were 1,605, 5,882, 12,488 and 1,379 eligible workers, respectively, at PCG factories S1, S6, AB and G8.

Below are two tables and a number of charts presenting social insurance and housing provident fund back pay statistics for the four factories visited by the FLA team. The charts show first a picture of back payment for all eligible workers while the second one does the same with respect to applicants.

**I. SOCIAL INSURANCE**

<table>
<thead>
<tr>
<th>SI RETROACTIVE CONTRIBUTIONS</th>
<th>ELIGIBLE WORKERS</th>
<th>APPLICANTS</th>
<th>COMPLETED</th>
<th>COMPLETED/APPLICANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Gaobu facilities</td>
<td>44,146</td>
<td>13,194</td>
<td>10,679</td>
<td>80.9%</td>
</tr>
<tr>
<td>S1</td>
<td>1,605</td>
<td>301</td>
<td>233</td>
<td>77.4%</td>
</tr>
<tr>
<td>S6</td>
<td>5,882</td>
<td>1,860</td>
<td>1,687</td>
<td>90.7%</td>
</tr>
<tr>
<td>AB</td>
<td>12,488</td>
<td>4,155</td>
<td>3,211</td>
<td>77.3%</td>
</tr>
<tr>
<td>G8</td>
<td>1,379</td>
<td>487</td>
<td>464</td>
<td>95.3%</td>
</tr>
</tbody>
</table>

**S1 - SOCIAL INSURANCE RETROACTIVE PAYMENT (ALL ELIGIBLE WORKERS)**

- Completed: 81%
- Ongoing: 15%
- Dropped out: 3%
- Never applied: 1%

**S1 - SOCIAL INSURANCE RETROACTIVE PAYMENT (AMONG APPLICANTS)**

- Completed: 77%
- Ongoing: 18%
- Dropped out: 5%
II. HOUSING PROVIDENT FUND

<table>
<thead>
<tr>
<th>HOUSING PROVIDENT FUND</th>
<th>HPF BACK PAY</th>
<th>ELIGIBLE WORKERS</th>
<th>WORKERS TURN</th>
<th>APPLICANTS</th>
<th>COMPLETED</th>
<th>COMPLETED/ APPLICANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Gaobu facilities</td>
<td>44,146</td>
<td>22,988</td>
<td>18,285</td>
<td>14,193</td>
<td>77.6%</td>
<td></td>
</tr>
<tr>
<td>S1</td>
<td>1,605</td>
<td>665</td>
<td>497</td>
<td>392</td>
<td>78.9%</td>
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</tr>
<tr>
<td>S6</td>
<td>5,882</td>
<td>3,151</td>
<td>2,789</td>
<td>2,215</td>
<td>79.4%</td>
<td></td>
</tr>
<tr>
<td>AB</td>
<td>12,488</td>
<td>6,782</td>
<td>4,574</td>
<td>3,317</td>
<td>72.5%</td>
<td></td>
</tr>
<tr>
<td>G8</td>
<td>1,379</td>
<td>826</td>
<td>539</td>
<td>413</td>
<td>76.6%</td>
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</tr>
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