



## **PROMOTING SUSTAINABLE COMPLIANCE IN VIETNAM**

U.S. DEPARTMENT OF STATE GRANT S-LMAQM-09-  
GR-548

PROJECT END REPORT  
VIETNAM 2009 - 2014

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## EXECUTIVE SUMMARY

As a global center of apparel and footwear manufacturing, Vietnam is an important manufacturing country for many companies affiliated with the Fair Labor Association (FLA). Only China employs more workers making products for FLA-affiliated companies, and only four other countries (China, the US, India, and Turkey) are home to more factories.

In May of 2009, funded by a grant from the U.S. Department of State, the FLA entered into a partnership with the Vietnam Chamber of Commerce and Industry, to jointly administer a project to assess factory performance using the FLA's Sustainable Compliance Methodology, and to facilitate training sessions and the sharing of best practices between factories.

To determine the areas of focus for the project, FLA staff held several in-country stakeholder consultations, beginning in 2009, seeking input from factory managers, brand compliance officers, trade union representatives, government officials, and local civil society organizations. At these consultations, participants identified three primary compliance areas – labor relations, fair wages, and hours of work – as requiring particular attention and improvement in the garment and footwear industry in Vietnam. FLA staff sought factory participants for the project by contacting suppliers recommended by FLA-affiliated brands or other brands, and by conducting direct-outreach efforts.

### **Baseline Assessments**

Beginning in 2012, and continuing into 2013, the FLA conducted worker and management surveys in 31 factories in both the north and south of Vietnam. These interviews formed the basis of the project's baseline assessments of how well factories were performing in the categories chosen during the stakeholder consultations. Altogether, the participating factories employed 101,705

workers at the time of these assessments, with 4,785 workers randomly selected for the survey.

To assess **labor relations** in the participating factories, project staff focused on four key issues: whether workers are informed about factory policies and communications channels, whether workers are consulted on issues relevant to them, if workers are using available channels to voice concerns, and whether the worker perspective is systemically integrated into factory affairs. In interviews, the vast majority of workers (91 percent) indicated a willingness to speak up about their workplace concerns. The two top-priority workplace concerns of interviewed workers were fair wages (85 percent) and hours of work (67 percent).

According to the baseline assessments conducted by project staff, most workers (90 percent) reported being paid on time and in full by their factory. However, 64 percent of workers surveyed reported that they must work more than 40 hours per week to earn **wages sufficient to cover their basic needs**. Forty percent of workers reported that even working more than 60 hours a week – a violation of the FLA Workplace Code of Conduct – would not cover their basic needs, at their current wage levels. While a majority of surveyed workers agreed that they could afford food and shelter at current wage levels, most also stated that their wages are insufficient to cover their needs for clothing, health care, education, and entertainment.

Both the worker and management surveys on **hours of work** found little awareness of the risks – to worker health and safety, and overall factory productivity – of excessive hours of work. Project staff found that, in general, official policies in the participating factories met local legal regulations on hours of work, but workers showed little awareness of their right to refuse overtime work without fear of negative consequences. 46.8 percent of workers were found to work more than 60

hours a week, and 2 percent were found to be working more than six days a week. Project staff found that only 12.6 percent of the surveyed factories allowed a morning break, while 14.8 percent allowed an afternoon break.

Across all three categories, management self-assessments consistently scored the participating factories higher than the worker surveys. Factory management and worker perspectives were most closely aligned on questions related to the documentation of hours of work. Their perspectives diverged most sharply on the question of what constitutes a fair wage level in the factories.

### ***Training***

Following the completion of the baseline assessments, beginning in 2013 and continuing into 2014, project staff provided training opportunities for the participating factories, in eight group sessions held in Hanoi, Ho Chi Minh City, and Long An, and in individual factory coaching sessions.

The group trainings ranged from basic sessions, introducing simple tools for tracking grievances, complaints, and working hours; to more advanced sessions on how to enhance communication between managers and workers (without revealing their identity), how to elect worker representatives, how to survey workers on cost-of-living to determine wage thresholds, and how factories working together with buyers can help improve workers' wages and factory conditions. In the group sessions, factory management received training and coaching on how to make presentations to workers, to improve factory communications; and shared experiences and best practices on issues like how to collect data, how to measure worker productivity, and how to identify risk factors in production planning.

### ***Impact Assessments and Recommendations***

Upon the conclusion of the project in 2014, project staff returned to 15 of the original 31

factories to conduct impact assessments of the previous two years of work and surveyed 2114 workers after the management filled out an online self-assessment. The impact assessments found several improvements, including: increased worker awareness of legal wage standards and collective bargaining agreements, better training for workers on opportunities to participate in factory affairs, and action by all assessed factories to solicit worker input on workplace issues.

The impact assessments also continued to find challenges related to all three targeted issues areas – labor relations, hours of work, and fair wages. To encourage continuous improvement, project staff proposed the following recommendations to participating factories:

- Factories should provide grievance-handling personnel with sufficient authority, resources, and training; ensure worker confidentiality during grievance procedures; and provide communications training to both workers and management.
- Factories should make workers aware of current representative bodies, encourage worker representatives to engage fully, and frequently communicate news of factory affairs to workers.
- Factory management should increase workers' wages in accordance with factory performance, rewarding both individual and collective improvement, and reflecting changes in work intensity, technology, and skills.
- Factories should train their management on the negative effects of excessive hours of work, including increases in the rate of accidents and occupational disorders, and effects on workers' mental health.

Management teams should optimize their production planning, with worker input, in an effort to reduce excessive hours of work.



## I. BACKGROUND

The past decade witnessed a shift in the global garment-manufacturing base to Asia,<sup>1</sup> with China, Bangladesh, India, Turkey, and Vietnam gaining market share in world production and exports.<sup>2</sup> Vietnam's exports of garments were valued at \$1.9 billion in 2000 and increased to \$13.15 billion in 2013.<sup>3</sup> According to the International Trade Statistics 2013 from the World Trade Organization, even though the world exports of textiles and clothing stagnated in 2012, Vietnam achieved the highest growth of exports worldwide (7.5 percent) that year.<sup>4</sup> In 2013 a total of 5,982 textile and garment factories operated in Vietnam, 60 percent of which are located in the south of the country, and 70 percent of which are apparel (cut and sew) facilities.<sup>5</sup>

Vietnam is an increasingly important manufacturing country for the apparel and footwear companies affiliated with the Fair Labor Association (FLA). In 2005, FLA-affiliated companies sourced garments and footwear products from 167 Vietnamese factories; the number of facilities increased to 233 supplying 33 FLA-affiliated companies in 2009. In 2013, 39 FLA-affiliated companies sourced from 270 factories in Vietnam, employing an estimated 740,392 workers, making Vietnam the country with the fifth-

**TABLE 1: SELECTED ECONOMIC AND LABOUR MARKET INDICATORS IN VIETNAM**

|   | 2011   | 2012   | 2013   |
|---|--------|--------|--------|
| GDP growth rate (%)   | 6.2    | 5.2    | 5.4    |
| Merchandise trade (% of GDP)  | 164.7  | 161.2  | 154.9  |
| Output per employed person, PPP<br>(constant 2005 international \$) | 5 082  | 5 239  | 5 440  |
|   | Total  | Male   | Female |
| Total employment (thousand)   | 52 208 | 26 830 | 25 378 |
| Labour force participation rate (%)                                 | 77.5   | 82.1   | 73.2   |
| Unemployment rate (%)   | 2.2    | 2.1    | 2.2    |
| Agriculture share of total employment (%)                           | 46.8   | 45.0   | 48.8   |
| Vulnerable employment rate (%)                                      | 62.7   | 56.7   | 69.1   |
| Average monthly wages (US\$)  | 181    | 189    | 169    |

**Note:** All labour market indicators cover the population ages 15 and above and reflect 2013 data except average monthly wages (2012); vulnerable employment defined as own account and contributing family workers.

**Source:** ADB and ILO: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, 2014), Annex F.

largest number of factories supplying FLA-affiliated companies (after China, the USA, India, and Turkey) and with the second-largest number of workers after China. Table 1 presents Vietnam's general labor information in 2013.

A number of initiatives to enhance workers' rights and improve labor conditions in Vietnam have been implemented in the last few years, among them the ILO-IFC Better Work Program,<sup>6</sup> the ILO Factory Improvement Program,<sup>7</sup> and the ILO Industrial Relations

1 The shift mainly occurred subsequent to the phase-out of the Multi-Fibre Arrangement (MFA). Established in the 1970s, the MFA regulated the global trade of textile and apparel products. Under the MFA, the US, Canada and the European Union (EU) could set limits (quotas) on the volume of foreign-made apparel and textiles they would allow to be imported annually from any specific producer country. Under this, import quotas were applied to 73 countries across the world, many located in Asia. In 1995, the Agreement on Textiles and Clothing (ATC) came into effect, under which quotas were phased out in four stages over a ten-year period. All quotas were eliminated on January 1, 2005.

2 International Trade Statistics---2013, World Trade Organization.

3 <http://en.vietnamplus.vn/Home/Exports-to-hit-131-billion-USD-in-2013/201310/40542.vnplus>

4 [http://www.wto.org/english/res\\_e/statis\\_e/its2013\\_e/its13\\_highlights2\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2013_e/its13_highlights2_e.pdf)

5 Source Vinatex - Vietnam National Textile & Garment Corporation (VINATEX) was established as a merge of all centrally State-owned enterprises in the field of textiles and garments.

6 Better Work is a partnership between the ILO and IFC launched in February 2007. Its Vietnam program was launched in 2008. The program, which is not restricted to the apparel sector, combines independent assessments of labor standards at the factory level with training, and capacity building. See <http://betterwork.org/vietnam/>

7 The Factory Improvement Program (FIP) was a partnership between the ILO and the Vietnam Chamber of Commerce and Industry (VCCI). The pilot implementation of FIP ran from October 2004 to July 2005 in 12 factories. FIP was based around the delivery of seven program modules: Workplace Cooperation; Quality; Productivity; Cleaner Production and Continuous Improvement; Human Resource Management; Health and Safety; and Workplace Relations. See Powers and Associates (Australia), Factory Improvement Program—Vietnam: Final Evaluation, [http://www.ilofip.org/Documents/WMFIP\\_Final\\_Evaluation\\_Report.pdf](http://www.ilofip.org/Documents/WMFIP_Final_Evaluation_Report.pdf).

Project.<sup>8</sup> Additionally, companies conduct audits of workplace conditions. Audits assess compliance with standards and give factories monitoring tools for remediating non-compliances, but they can be perceived as policing. Suppliers may fear losing business if they do not perform well in the audits, thereby leading them to hide real issues. This results in lack of trust between companies and their suppliers, and more importantly, findings are treated symptomatically and the root causes are rarely addressed, leading inevitably to problems reoccurring.

Since 2007, FLA has been using a novel approach to monitoring that goes beyond auditing and proactively identifies and seeks to remedy compliance issues through capacity building. This new methodology (see Box 1) known as the Sustainable Compliance Initiative (SCI), represents a fundamental change in monitoring philosophy from policing to partnership. It is based on the premise that in order for labor compliance to be sustainable, factories need to take ownership of the process instead of having it externally imposed on them by buyers. The approach also introduced a new way of measuring the health of labor relations in a factory by assessing the perspective gap between workers and managers regarding key labor issues at the workplace.

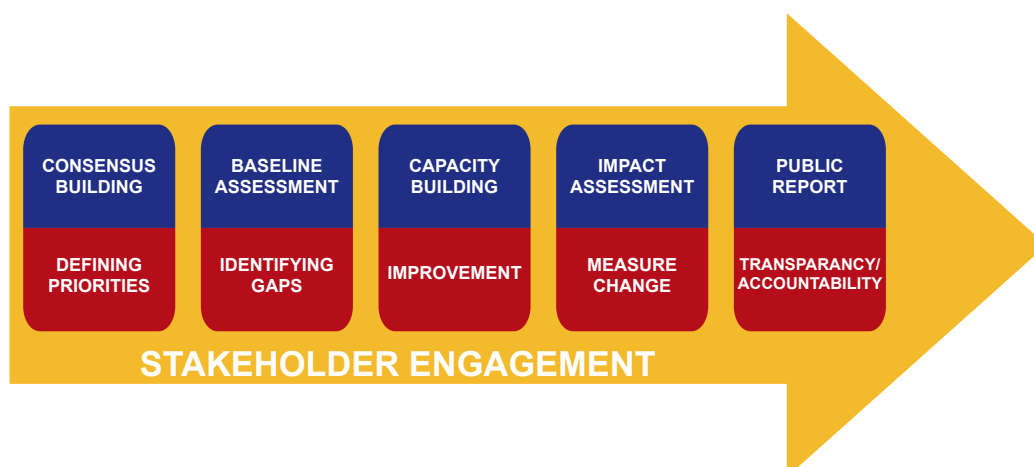
<sup>8</sup> The ILO Vietnam Industrial Relations Project was launched in January 2003 and ended in June 2006. Funded by the U.S. Department of Labor, it focused on promoting sound industrial relations at the workplace and strengthening the capacity of industrial relations actors in Vietnam. See Colin Fenwick and Thomas Kring, *Rights at Work: An Assessment of the Declaration's Technical Cooperation in Select Countries* (August 2007), [http://www.carnegieendowment.org/files/Declaration\\_report.pdf](http://www.carnegieendowment.org/files/Declaration_report.pdf). A second phase, funded by the Government of Norway, focused on strengthening organizational capacity of social partners to develop autonomous industrial relations practices at the enterprise level with a special focus on collective bargaining, assisting the government in reforming legal framework on industrial relations, and building basic data and information infrastructure for industrial relations policy development. See <http://www.goodworkvn.org/index.php?name=article&op=detailItemWithOther&articleId=94>

### **BOX 1: FLA'S ASSESSMENT METHODOLOGY, THE SUSTAINABLE COMPLIANCE INITIATIVE (SCI)**

The FLA's sustainable compliance methodology was introduced in 2007. This innovative approach aims at filling the gaps left by the pure audit method, which mainly identifies compliance violations and provides "quick fixes" to standards violations, until the next round of audits. The SCI methodology overcomes this weakness of pure auditing and strengthens the capacity of suppliers and workers to improve and eventually achieve self-sustainable systems through capacity building (See Table 2).

This sustainable compliance methodology is a combination of self-assessment and a participatory approach that aims to identify the root cause(s) of persistent and serious non-compliances and devise means to overcome these problems. It maps the differences in perceptions between management and workers in a workplace.

The SCI methodology consists of five main phases: (1) consensus building among factories and relevant stakeholders (clients, governments, NGOs, etc.) to identify and agree on priorities for collaborative work; (2) a baseline assessment that provides 360-degree analysis of prioritized labor issues and an in-depth analysis of the root causes of non-compliances; (3) capacity building activities for management and workers, specifically targeting the root causes of prioritized issues; (4) an impact assessment that measures progress; and (5) public reporting to uphold transparency and accountability of relevant stakeholders (See Figure 1).

**Figure 1:** The five phases of the FLA's Sustainable Compliance Methodology**TABLE 2: DIFFERENCES BETWEEN THE SUSTAINABLE COMPLIANCE AND AUDITING APPROACHES**

| SUSTAINABLE COMPLIANCE INITIATIVE (SCI)                                    | AUDITING  |
|--|---|
| Factory improvement subject to engagement with internal monitoring process | Factory improvement subject to buyers' or other stakeholders' imposed external monitoring process |
| External intervention by assessors and trainers                            | External intervention by auditors   |
| Key workplace concerns prioritized   | External Code of Conduct and labor standards addressed  |
| Long-term development goals  | Quick fixes and snapshot of remediation captured  |
| Workers' perspectives valued and integrated in action planning             | Poor worker participation   |
| Capacity building provided as part of the SCI methodology is a value add   | Poor capacity building follow-up  |

In order to further the application of the FLA's sustainable compliance methodology in Vietnam, the FLA applied for and received a United States Department of State grant in 2009 to foster sustainable compliance in Vietnam.<sup>9</sup> The project focused on garment and footwear factories, two key labor-intensive economic sectors in Vietnam.

This report covers all significant activities related to the subject grant and project activities from May 2009 to July 2014.

<sup>9</sup> United States Department of State awarded the grant to the FLA on April 3, 2009. The grant was for a period of 24 months, with a plan to target 50 factories. The total contribution from the US Department of State was \$500,000, with the FLA contributing \$104,095 towards the project. Administrative delays in securing permission for the FLA to begin legally operating in Vietnam led the factory-based activities to commence later than anticipated, in 2011. A revised scope of work and timeline targeted 31 factories and the project concluded in July 2014.

## II. PROJECT OBJECTIVES

The U.S. Department of State funded the FLA-led Promoting Sustainable Compliance in Vietnam Project (hereafter referred to as the Vietnam Project). The project sought to adapt and build on the FLA's sustainable compliance methodology for application in Vietnam. The FLA Vietnam Project is a consultative, multi-stakeholder process working toward the following objectives:

- Increasing respect for workers' rights and improving working conditions in Vietnamese factories;
- Promoting sustainable compliance at the local factory level, and enabling workers and managers to regulate their own workplaces in a manner consistent with national labor law, international labor standards, and labor best practices;
- Cultivating multi-stakeholder engagement in the region.

## III. PROJECT PROFILE

### III.a Project Timeline

The project started in May 2009 and ended in July 2014. The chronological framework for project activities and stakeholder engagement over the five years and for five

phases is summarized in Figure 2 below. The project activities will be described in detail in the "Project Activities" section of the report.

### III.b. Project Stakeholders

Stakeholders who have benefitted directly from the project include (Figure 3):

- At the factory level:* Workers, managers, and their representatives from 31 factories in Vietnam producing apparel and footwear products for FLA affiliates or non-affiliated companies;
- At the brand level:* Compliance officers and managers from brands and related compliance organizations;
- At the government level:* Officials conducting work in labor inspection, wages, labor relations development, policy researchers, etc., from the Ministry of Labour, Invalids, and Social Affairs (MOLISA), Vietnam General Confederation of Labour (VGCL), and officials from the Vietnam Chamber of Commerce and Industry (VCCI) at provincial and national levels;
- At the worker organizations / trade union level:* Worker representatives in individual factories as well as the officers of trade unions in the factories.

**Figure 2:** Project timeline by various activities (Note: Number in the boxes represent the number of workshops conducted)

|                        | 2009 |   |                  | 2010 |  |  | 2011 |   |   | 2012 |   |   | 2013 |  |   | 2014 |   |  |
|------------------------|------|---|------------------|------|--|--|------|---|---|------|---|---|------|--|---|------|---|--|
| 1. Consensus Building  | 1    | 1 | Project Approval |      |  |  |      |   |   |      |   |   |      |  |   |      |   |  |
| 2. Baseline Assessment |      |   |                  |      |  |  |      |   |   | 23   |   |   | 8    |  |   |      |   |  |
| 3. Capacity Building   |      |   |                  |      |  |  |      |   |   |      |   |   |      |  |   |      |   |  |
| Tool Development       |      | 1 |                  | 1    |  |  |      |   |   |      |   |   |      |  |   |      |   |  |
| Training of Trainers   | 1    |   | 1                | 1    |  |  |      |   |   | 1    |   |   |      |  |   |      |   |  |
| Factory Enrollment     |      |   | 1                |      |  |  |      | 1 | 1 |      |   |   | 2    |  |   |      |   |  |
| Training Delivery      |      |   | 1                |      |  |  |      |   |   |      | 1 | 1 |      |  | 1 | 1    | 2 |  |
| 4. Impact Assessment   |      |   |                  |      |  |  |      |   |   |      |   |   |      |  |   | 15   |   |  |
| 5. Public Reporting    |      |   |                  |      |  |  |      |   |   |      |   |   |      |  |   |      |   |  |
| Stakeholder Engagement | 1    |   |                  |      |  |  |      | 1 |   | 1    |   | 1 | 1    |  | 1 | 1    | 1 |  |



**Figure 3:** Stakeholders who participated and benefitted through the project

- v. *Service Providers:* Independent organizations, individuals, and service providers conducting compliance related work at the factory level.

### III.c. Project Focus Areas

The project had three focus areas or modules described as follows:

#### **Module 1: Labor Relations**

The objective of this module is to ensure proper and responsible worker-management communication and representation at the workplace. Participants learn innovative methods of problem identification, root cause analysis, goal analysis, solution identification and consensus building, action planning, development of communication channels, and communication and negotiation skills. By the time the module is completed, participants have identified real issues affecting their workplace and worked through all of the steps to solve those issues.

#### **Module 2: Hours of Work**

One of the objectives of this module is the reduction of excessive working hours in factories. This objective is achieved by explaining to participants what factors result in long working hours, why it is in management's interest to address these factors, and how the number of working hours can be reduced.

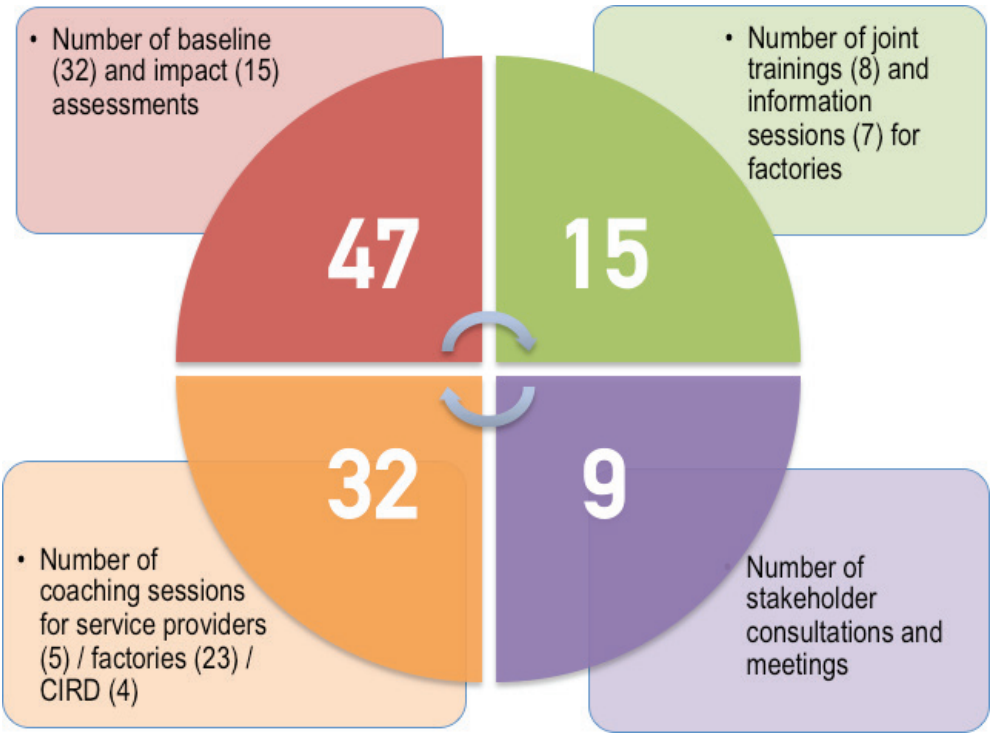
#### **Module 3: Fair Wages**

The objective of this module is to help factory managers understand the importance of designing and implementing fair and comprehensive compensation systems within their workplaces in cooperation with workers and their representatives. Practical mechanisms are suggested to factories on case-by-case basis.

### III.d. Project Activities by the Numbers

During the execution of the project, the FLA conducted 103 key project activities, as indicated in Figure 4 below. This number does not include supplementary consultation meetings and informal technical outreach.

Figure 4: Project Activities by the numbers



III.e. Project Outcomes as Bureau of Democracy, Human Rights and Labor’s (DRL) Requirement Indicators

The key framework indicators for the project provided to the United States government were obtained as follows. In addition to the 6,393 production workers who benefited from the project (in both baseline and impact assessments), 757 factory managers, trade union officers, brand compliance officers, government officers, and local civil society organizations, suppliers, and consulting companies (from a total of 288 organizations) were involved in the training and advocacy programs provided by the FLA Vietnam Project.

| TABLE 3: PROJECT OUTCOMES AS DRL REQUIREMENT INDICATORS  |                   |
|--|-------------------|
| Number of people who completed United States Government (USG) assisted Civic Education Programs      | 7150              |
| Number of civil society organizations using USG assistance to improve internal organization capacity | 288 <sup>10</sup> |

10 This number includes the 105 factories that benefitted from the half-day training and information sessions organized at the start of the project. Of these, 31 factories participated in the full project. This number also included the organizations that attended the multi-stakeholder meetings and consultations and participated in the activities organized during those events. The numbers are based on the on-site registration forms filled by the participating organizations.

## IV. PROJECT ACTIVITIES

This section provides the main project activities based on the five phases of the FLA's sustainable compliance methodology and related outcomes.

### IV.a. Consensus Building to Initiate Project Implementation in Vietnam

#### IV.a.1. Challenges in Project Inception

The project faced a number of challenges before project activities could start in Vietnam. It took 27 months for the FLA to complete the process of building initial consensus with the government, relevant labor tripartite stakeholders, and the participating factories. The challenges were as follows:

- (i) A long delay in obtaining approval for a US-government-funded project grant from the government of Vietnam (27 months in progress – see Figure 2, pg. 7). The key reason for the delay was the hesitation of the government of Vietnam in approving Official Development Assistance (ODA) on labor issues executed by an international labor NGO such as the Fair Labor Association;
- (ii) A long delay in recognizing the FLA's legal status to implement the project in Vietnam, where the recognition was also one of requirements to approve the project operation in Vietnam;
- (iii) A challenge from skeptics of the FLA's company-driven efforts to improve labor rights through imposition of standards on manufacturing factories rather than through decisions made by the factories to meet their own needs;
- (iv) The requirement from the government of Vietnam that the project should contribute to national labor developments in addition to the local-level efforts.



*Project Document Signing at the FLA Vietnam Project Launch Ceremony in Hanoi – April 2012.*

The efforts of the FLA and its counterparts in Vietnam that provided supportive and transparent information about the FLA's sustainable compliance methodology, coupled with a well-structured project implementation plan, led the Prime Minister of Vietnam to approve and sign Directive 42/VPCP-QHQT allowing the project's official operation in Vietnam. The FLA launched the project on April 11, 2012 in a ceremony held at the Hanoi Movenpick Hotel with participation of the project's key Vietnamese counterparts – the Vietnam Chamber of Commerce and Industry (VCCI) and the Vietnam General Confederation of Labor (VGCL) – attended by 70 guests including representatives of the U.S. Embassy in Vietnam.

During the launch ceremony, FLA and VCCI co-signed the Project Document, approved by the Prime Minister. As of April 6, 2012, the

Upon approval, the project's general timeframe was developed and agreed among project stakeholders (Figure 5).

During the consensus-building phase, several modifications were made to the Grant Award by the Department of State as the Grantor to the FLA:

*Factory enrollment* – It was generally agreed that the FLA’s original approach would not genuinely promote suppliers’ ownership of their compliance programs if FLA-affiliated buyers required their participation into the project. In order to address this concern, the FLA conducted direct outreach to suppliers of both FLA-affiliated and non-FLA-affiliated buyers and recruited them based on their interest and willingness to engage in the project.

- The FLA Vietnam Project was officially approved by the Prime Minister of Vietnam on 11 January 2012
- The PACCOM<sup>12</sup> granted the permit for the FLA to operate in Vietnam within the scope of work and timeframe of the Vietnam Project
- The two approvals constituted the complete registration of the project. Any FLA non-project activities were advised to be reported to the PACCOM to ensure FLA's full compliance with Vietnamese legal requirements on foreign Non-Profit Organization (NGO) operation in the country.

| Month  | 2012 |   |   |   |   |   |    |    |    |   |   |   | 2013   |   |   |   |   |   |    |    |    |   |   |   | 2014 |   |   |   |   |   |    |  |  |  |  |  |
|--|------|---|---|---|---|---|----|----|----|---|---|---|--|---|---|---|---|---|----|----|----|---|---|---|------|---|---|---|---|---|----|--|--|--|--|--|
| Description  | 4    | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | 3 | 4  | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | 3 | 4    | 5 | 6 | 7 | 8 | 9 | 10 |  |  |  |  |  |
| <b>BATCH 1</b><br>(23 factories)                                 |      |   |   |   |   |   |    |    |    |   |   |   | <div> <div>Baseline Assessment</div> <div>FLA sponsored Capacity Building</div> <div>Factory-initiated Capacity Building</div> <div>Impact Assessment</div> </div> |   |   |   |   |   |    |    |    |   |   |   |      |   |   |   |   |   |    |  |  |  |  |  |
| Monthly Progress Checking with Sustainable Compliance Indicators |      |   |   |   |   |   |    |    |    |   |   |   |  |   |   |   |   |   |    |    |    |   |   |   |      |   |   |   |   |   |    |  |  |  |  |  |
| <b>BATCH 2</b><br>(27 factories)                                 |      |   |   |   |   |   |    |    |    |   |   |   | <div> <div>Baseline Assessment</div> <div>Capacity Building FLA sponsored</div> <div>Factory-initiated Capacity Building</div> <div>Impact Assessment</div> </div> |   |   |   |   |   |    |    |    |   |   |   |      |   |   |   |   |   |    |  |  |  |  |  |
| Monthly Progress Checking with Sustainable Compliance Indicators |      |   |   |   |   |   |    |    |    |   |   |   |  |   |   |   |   |   |    |    |    |   |   |   |      |   |   |   |   |   |    |  |  |  |  |  |

12 PACCOM – The People's Aid Coordinating Committee.

*Government engagement* – A challenge for sustainable labor compliance in Vietnam was the gap between policy research and law development that caused misperceptions by labor actors with regard to issue identification and root-cause analysis. To address this, FLA decided to take the project's good practices as empirical evidence and inputs for policy advocacy at a later date. This required stronger government involvement as part of multi-stakeholder engagement efforts than originally foreseen by the proposal for the grant.

*Civil society organizations* – Due to the government's requirement of non-profit operation within the project scope of work, the FLA could charge neither the participating factories nor the service providers (CSOs) for the technical support they received from the project. Budget allocation was therefore made for factory group training and random in-factory coaching only as opposed to individual factory capacity building mentioned in the original project plan.

## IV.b Preparatory Activities

While pursuing consensus-building at the government level, the FLA established the groundwork for future project implementation. Preparatory activities began in May 2009 with a series of stakeholder engagements during which participants prioritized which factory-level issues they would like to see the project pursue.

### IV.b.1 Issues Prioritization

The FLA began by engaging in stakeholder consultations with key actors from government, employer associations, the only government recognized trade union (Vietnam General Confederation of Labor [VGCL]) in the country, as well as other international NGOs and the ILO Country Office for Vietnam. The FLA held a series of pre-launch consultations between May 25 and May 29, 2009. These consultations informed key organizations and constituencies about

the project and its objectives, and mapped existing resources and needs in the area. Following that, project staff held two multi-stakeholder roundtable meetings in Hanoi and Ho Chi Minh City in July 2009 to present the project concept and prioritize issues. Fifty-six participants attended the Hanoi workshop, and 125 participants attended Ho Chi Minh City workshop.

During the two workshops, participants discussed several issues affecting labor compliance in Vietnam, including social dialogue, wages and benefits; hours of work; labor absenteeism and labor turnover; worker skills; health, safety, and environmental issues; and communication between buyers and suppliers. From the rich discussions, three issues were identified as having highest priority:

- (1) social dialogue and labor relations;
- (2) wages and hours of work; and
- (3) human resources management.<sup>13</sup>

In addition to identifying and prioritizing the noncompliance issues on which the FLA Sustainable Compliance Initiative should focus, the groups also identified possible root causes and suggested solutions. Table 4 presents the monitoring matrix developed by the stakeholders during the workshops.

### IV.b.2. Tools and Training Development and Training-of-Trainers

Prior to the baseline assessments that commenced in 2012, FLA spent considerable time adapting its existing assessment tools and training material to the local context. Please see below and refer to Annex 1 for more details:

- After the July 2009 roundtables, a Training of Trainers (TOT) workshop for potential local service providers

<sup>13</sup> In the later stages of the project, as factories enrolled in the project, the three main focus issues for intervention became: (1) Labor Relations; 2) Hours of Work, and 3) Fair Wages.



TABLE 4: PRIORITY ISSUES MONITORING MATRIX AS IDENTIFIED BY STAKEHOLDERS

| PRIORITY ISSUE                      | ROOT CAUSES   | SUGGESTED SOLUTIONS   |
|-------------------------------------|---|---|
| 1. Labor Relations                  | Poor communications between employers and workers   | <ul style="list-style-type: none"> <li>FLA could provide communication tools to the management that can be used to carry out problem-solving at the factory level.</li> <li>As there is lack of social dialogue in most factories between workers and management this should be one of the topics where in FLA could conduct capacity building.</li> </ul>  |
| 2. Wages and Hours of Work          | <ul style="list-style-type: none"> <li>Communication between buyers and suppliers focuses only on technical matters and is often conducted by agents.</li> <li>High defect/quality rates, high labor turnover (10% - 20%), and use of unskilled labor lead to low productivity</li> <li>Over capacity/ scheduling issues</li> <li>Peak season/low season (product categories); small orders/difficult product styles</li> </ul> | <ul style="list-style-type: none"> <li>Online software to improve communication between buyers and suppliers.</li> <li>Management System for suppliers including systems for human resources management and quality assurance.</li> <li>Skills trainings for supervisors.</li> <li>Address occupational health and safety issues/improve working conditions for workers.</li> <li>Self-assessment form on hours of work management systems.</li> <li>Labor arrangement in production lines for each product style.</li> <li>Improve worker skill and technology.</li> <li>Improve human resources capacity at the factory level.</li> </ul> |
| 3. Human Resources Management (HRM) | <ul style="list-style-type: none"> <li>No commitment from workers due to lack of assistance from factory</li> <li>Unfriendly working environment</li> <li>Human resources staff not supportive of workers</li> <li>Supervisors' attitudes and pressures</li> </ul>  | <ul style="list-style-type: none"> <li>Trainings on job requirements and job details for workers, especially supervisors, from external trainers.</li> <li>Regular meetings between management and supervisors, or middle management and workers to communicate the company's objectives, production plans, etc.</li> <li>Structure, processes, and skills to foster workers' understanding and awareness.</li> </ul>   |

(SP) was organized to explain the FLA's social compliance methodology and factory assessment procedures (SCAT and SCOPE, please see below). A total of 15 potential SPs (local civil society organizations, individual experts, commercial auditing agencies, and consulting companies) attended the training.

- FLA's existing training materials on Social Dialogue and Labor Relations were adapted to the Vietnamese environment and translated into Vietnamese. A Training of Trainers Workshop was conducted for five days in October 2009. To carry out this TOT Workshop, the FLA cooperated with the Hanoi Vocational Center and Sustainability Agents based in Berlin, Germany who helped FLA design the training materials and provide coaching.

Eleven participants from five selected potential service providers participated in the training. After the workshop, based on a grading matrix, nine participants from four service providers were selected to be the accredited trainers for the module.

- Based on the existing FLA training on hours of work, a Training of Trainers, led by Organizational Capacity Development Co. (OCD) Vietnam, was held in March 2010 for six local service providers, four of which also attended the Social Dialogue Training. The OCD adapted the FLA's existing material on hours of work to the Vietnamese situation based on their experience working with the ILO, German Organization for Technical Cooperation (GTZ), local governments, and various companies.

- In March 2010, FLA invited a wage expert from ILO Geneva, who also serves as a professor of corporate social responsibility at Sciences Po in Paris, to conduct research on the fair wage practices of suppliers facing the current economic crisis in Vietnam, and to identify how suppliers performed on 12 fair wage dimensions:

- (1) payment of wages,
- (2) living wage,
- (3) minimum wage,
- (4) prevailing wage,
- (5) payment of working hours,
- (6) pay systems and wage structure,
- (7) communication and social dialogue,
- (8) wage discrimination / wage disparity,
- (9) real wage,
- (10) wage share,
- (11) wage costs and wage and,
- (12) work intensity, technology and up-skilling.

The research was carried out in four factories in northern Vietnam between March 24 and 31, 2010, with one day spent in each factory. Based on the research results, the ILO expert worked with the FLA team on assessment tool development and also held a Training of Trainers in Vietnam.

#### IV.b.3. Assessment Tools and Methodology

FLA's Assessment and Survey team worked with subject matter experts and developed the assessment tools to be used at the factory level to conduct baseline and impact assessments. Based on the FLA's sustainable compliance methodology, two types of tools were adapted and developed for each of the three topics (Box 3).



*Training of Trainer workshop on Social Dialogue and Labor Relations held in Hanoi from October 26 - 30, 2009*

At the time of the baseline assessments in 2012, in order to find most persistent root causes of non-compliances, the questionnaires in all three modules were further modified to include questions on (i) labor disputes and (ii) conflict management. The questionnaire on labor relations was adapted to consider the Vietnamese industrial relations environment, including the frequent wildcat strikes used by workers to demand better working conditions because of ineffective communication channels available in factories. Additional issues considered in the assessments included:

1. Whether workers think that having a collective voice is more effective than an individual voice in communicating with management;

### BOX 3: ASSESSMENT TOOLS AND METHODOLOGY USED IN THE FLA VIETNAM PROJECT

**A Management Self-Assessment Tool (SCAT)** - The factory management fills out an online Sustainable Compliance Assessment Tool on specific topics (labor relations, hours of work, fair wages). The SCAT asks questions on internal management systems and covers areas such as policies and procedures, training, implementation, documentation and communication, worker integration, and awareness. This tool (a) assesses the factory's self reported performance with regards to both compliance and sustainability; (b) generates quantitative results (a score from 1 to 5) on the above-mentioned areas and the factory's overall performance, and (c) provides data that can be compared with the results of SCOPE Worker Survey. The factory management, once registered with the project, receives from the FLA a link to the FLA's Assessment Portal ([ap.fairlabor.org](http://ap.fairlabor.org)), a user-name, and a password to access the online questionnaires. Suppliers fill out the SCAT questionnaire online. The factory management receives an email with the SCAT results. Once the SCAT is filled out online, a second step is undertaken to collect information about workers' perceptions using the SCOPE tool. This consists of administering a worker survey in the factory within one week of the completion of online SCAT.

**Worker Survey (SCOPE)** - A standardized quantitative survey is completed by a representative sample of workers. The SCOPE survey (a) helps to incorporate workers' opinions in measuring the efficiency, effectiveness, and impact of the factory's policies and practices; (b) protects workers' anonymity; and (c) emphasizes the condition that workers should NOT suffer from any economic loss or retaliation from the employer for participating in SCOPEs. An FLA assessor or Accredited Service Provider (SP) trained in SCOPE methodology contacts the factory and prepares the survey (defines sample size; selects sample; confirms date, schedule, and logistics). The SP then conducts the survey in the factory and collects data and inputs it in a datasheet provided by the FLA. FLA analyzes the data and generates the report. These results are compared with the SCAT results and a report is shared with the factory.

2. Whether workers think that worker representatives should be selected purely by workers without management interference;
3. Whether workers are against or in favor of strikes in the absence of effective communication channels;
4. Whether workers would participate in a strike or other forms of worker collective actions in their factory.

All tools were translated and simplified to ensure they were understandable and accessible to workers and to avoid misleading the surveyed workers, most of whom have low literacy levels. The differences in local languages between the north and the south,

and differences in factory cultures were also considered. In coaching workshops and in factories before and during the baseline assessments, the Service Providers were trained on the use of these tools.

#### IV.b.4. Project Information Sharing Sessions and Factory Recruitment

Project staff held several information-sharing sessions to enroll factories in the project and prepare them for the baseline assessments, and to build consensus on project goals. The first session, held in the last quarter of 2009, enrolled ten participating factories. As discussed above, their progressive participation was suspended due to the delay in obtaining project approval from the

government of Vietnam. Three more sessions each were held in both North and South of Vietnam in 2011, 2012, and finally in the first quarter of 2013. Subsequent to the June 2012 information-sharing sessions in Hanoi and Ho Chi Minh City there were a total of 23 factories enrolled in the project. Seven of these factories had voluntarily joined the project without their buyers' nomination.

In January and March 2013, in the South and in the North, respectively, two additional workshops were conducted which led to enlisting eight of 25 factories participating in the workshops, on a first-come, first-served basis. Limited resources required that seven other interested factories not participate.

Of the 31 factories (Annex 2) that implemented the project, 19 were recommended by buyers, while 12 registered voluntarily and independently of any action from their buyers.

At the information-sharing sessions, the participants were provided with basic information regarding: (1) Labor Compliance in Global Supply Chains and in Vietnam; (2) Sustainable Labor Compliance versus Auditing; and (3) Key Compliance Issues in Vietnam. Some of the main conclusions of the sessions were:

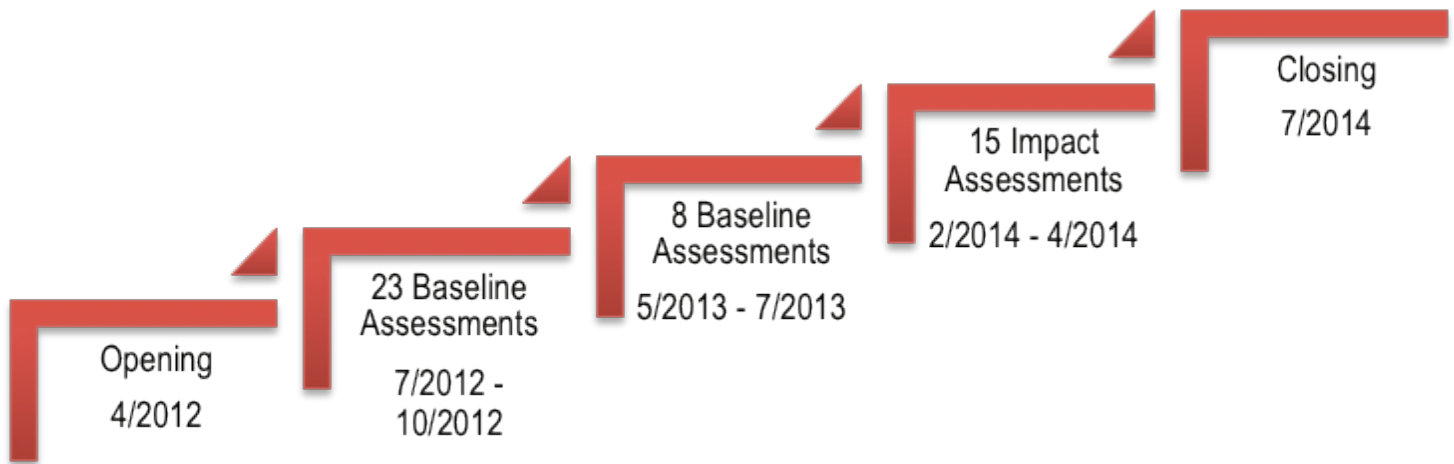
- The majority of participants understood that sustainable labor compliance was not only a requirement imposed by their clients, but also a factor for the sustainable development of their factories;
- The number of participants who thought that labor audits are essential to compliance was sharply reduced after learning about the FLA's sustainable compliance methodology, as this was the first time they were exposed to a different philosophy of making continuous improvement.



*Project Information-Sharing Sessions held in Ho Chi Minh City and Hanoi*



Figure 6: Timeline of Baseline and Impact Assessments



- The majority of participating factories endorsed the three key project issues identified during the workshops: labor relations, hours of work, and fair wages, which were slightly different from the original modules of worker participation, hours of work, and human resource management.

#### IV.c. Baseline Assessments

Baseline assessment activities officially started shortly after the project launch in April 2012 (Figure 6).<sup>14</sup> In total, between 2012 and 2013, the FLA conducted 32 baseline assessments at 31 factories,<sup>15</sup> surveying a large sample of workers with a specific focus on labor relations, hours of work and fair wages. Each assessment comprised a Worker Survey (SCOPE) and an online Management Self-Assessment (SCAT). The first batch of

baseline assessments in 23 factories was initiated in July 2012 and completed in October 2012. The second batch of eight baseline assessments was conducted from May 2013 to July 2013.

The project included factories located in 14 cities or regions: Bac Giang, Ben Tre, Binh Duong, Ba Ria-Vung Tau, Dong Nai, Hai Duong, Haiphong, Hanoi, Ho Chi Minh City, Long An, Nam Dinh, Soc Trang, Tan Binh, and Thai Binh (Figure 7). At the time of the survey, there were 101,705 workers in the 31 factories; 4,785 of these workers were randomly selected to participate in the worker survey.<sup>16</sup> To protect the anonymity of respondents, workers were asked not to fill in their names on the questionnaires.

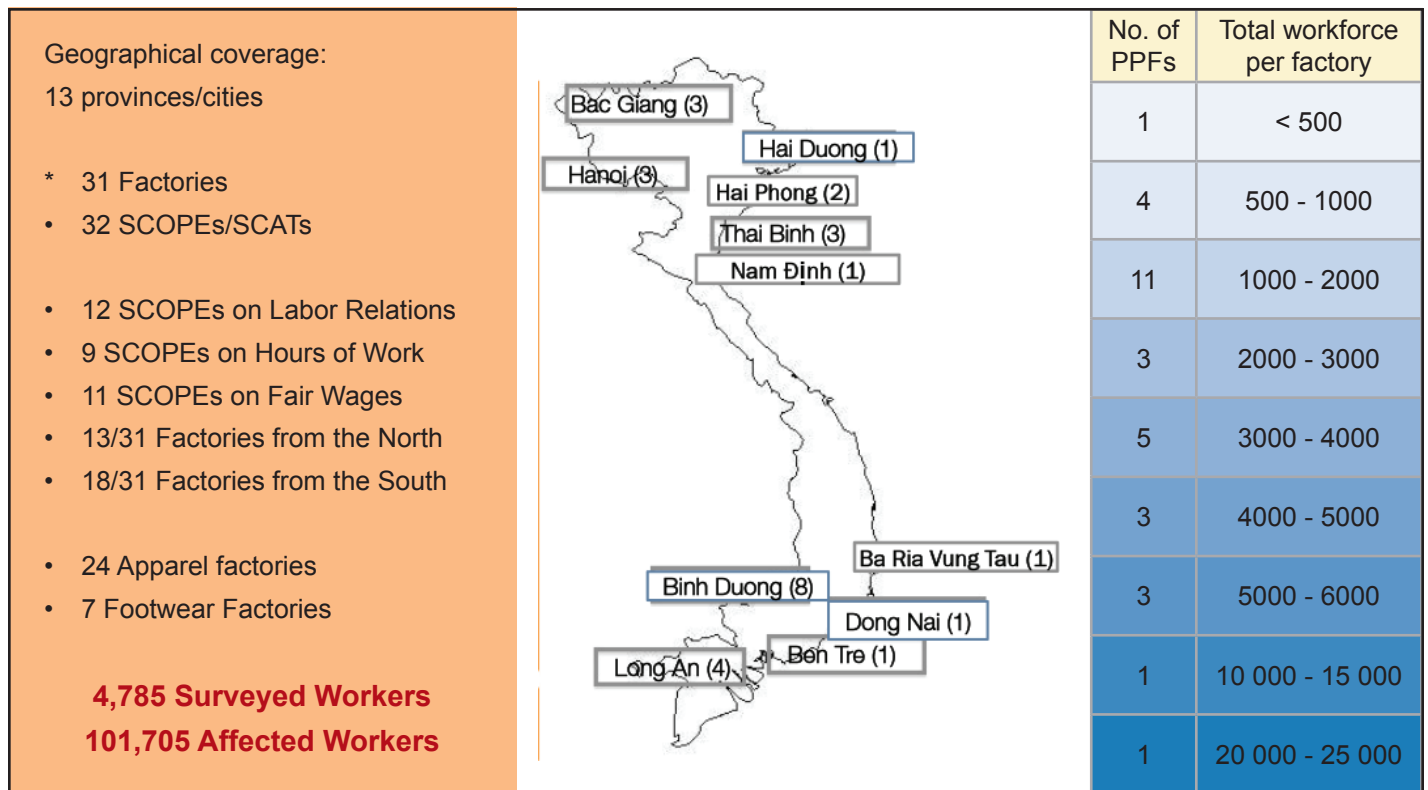
<sup>16</sup> Sample size was based on (+/-) 7.5% error range, at 95% confidence level.

<sup>14</sup> In late 2009, 10 factories registered to participate in the FLA 3.0 Vietnam Project; the self-assessment for managers (SCAT) was conducted in these factories. Work with these factories was suspended.

<sup>15</sup> In total, 31 factories participated in FLA's Vietnam project. As one factory was assessed twice on different topics, there are 32 assessments.



Figure 7: Baseline Assessments Fact Sheet



*SCOPE survey being administered at a shoe producer in Long An. From a workforce of 1557, 165 randomly selected workers participated in the survey administered on July 3, 2012. It took each worker 50 minutes to complete the questionnaire on fair wages with support from SPs. Workers from factories in the project stated that they had never participated in any in-depth survey before. Most interviewed found SCOPE very helpful and reflective of their employers' willingness to improve labor relations.*



*Manager interviews and document review at a cap manufacturer that supplies an FLA Participating Company and other brands. It took the factory staff and the FLA team one hour to complete the review of hours of work documents. The factory's impression was that the review with elaboration was totally different from the audits they have gone through over the years.*

TABLE 5: CHARACTERISTICS OF SURVEYED WORKERS BY NORTH/SOUTH LOCATIONS

|   | OVERALL (N=4785) |             | NORTH (N=1914) |             | SOUTH (N=2871) |             |
|---|------------------|-------------|----------------|-------------|----------------|-------------|
|   | N                | %           | N              | %           | N              | %           |
| <b>Gender</b>                             |                  |             |                |             |                |             |
| Male                                      | 807              | 16.9        | 299            | 15.7        | 508            | 17.7        |
| Female                                    | 3962             | 82.8        | 1603           | 84.3        | 2359           | 82.3        |
| <b>Marital Status</b>                     |                  |             |                |             |                |             |
| Single                                    | 1520             | 31.8        | 467            | 24.6        | 1053           | 36.8        |
| Married                                   | 3126             | 65.3        | 1405           | 74.0        | 1721           | 60.1        |
| Divorced                                  | 115              | 2.4         | 26             | 1.4         | 89             | 3.1         |
| <b>Migrant or Local</b>                   |                  |             |                |             |                |             |
| Local                                     | 2531             | 52.9        | 1614           | 87.2        | 917            | 36.0        |
| Migrant                                   | 1866             | 39.0        | 236            | 12.8        | 1630           | 64.0        |
| <b>Education</b>                          |                  |             |                |             |                |             |
| No Schooling                              | 32               | 0.7         | 17             | 0.9         | 15             | 0.5         |
| Primary School                            | 424              | 8.9         | 48             | 2.5         | 376            | 13.1        |
| Middle School                             | 2641             | 55.2        | 984            | 51.5        | 1657           | 57.9        |
| High School                               | 1427             | 29.8        | 697            | 36.5        | 730            | 25.5        |
| Vocational School                         | 222              | 4.6         | 141            | 7.4         | 81             | 2.8         |
| College/University                        | 26               | 0.5         | 22             | 1.2         | 4              | 0.1         |
| <b>Average Length of Service (Months)</b> | <b>4350</b>      | <b>42.6</b> | <b>1827</b>    | <b>55.8</b> | <b>2523</b>    | <b>33.1</b> |

Table 5 presents some basic characteristics of the surveyed workers during the baseline assessments.<sup>17</sup>

Both the Worker Survey (SCOPE) and the Management Self-Assessment (SCAT) use numbered scores to describe a factory's conditions. Each assessment dimension of the SCOPE and SCAT is measured on a scale from 1 to 5. A score below 3 indicates sub-standard performance, a score between 3 and 4 shows somewhat satisfactory performance, and a score of 4 and above indicates good performance.

### ***Aggregate Baseline Assessment Report***

In addition to the individual 31 factory reports, the FLA issued an aggregated report on the status of labor relations, hours of work and fair wages at 31 factories based on the

baseline assessment results.<sup>18</sup> The report provided a picture of labor compliance in apparel and footwear factories in Vietnam. The data was helpful for factories' managers, compliance officers, trade union officers and workers, brand compliance officers, local and national labor policy-makers and practitioners, and other relevant stakeholders.

Findings from the baseline assessment offered comprehensive analysis of both the strengths and the weaknesses of the current factory-level practices from the perspective of both the workers and management; these findings proved to be a starting point for developing a tailored capacity-building training program in the third phase, and a benchmark for an impact assessment in the final phase. These results were also used to engage on issues with stakeholders as described later in this report.

<sup>17</sup> Numbers may not always add up to 100 percent due to unanswered questions.

<sup>18</sup> Annex 3.

#### IV.c.1. Results from the Baseline Assessments - Labor Relations

Project staff examined five dimensions of labor relations in factories:

- (1) Information<sup>19</sup> – Are workers informed about the factory’s policies and the appropriate channels for participating in factory affairs;
- (2) Consultation – Are workers consulted on issues that matter to them?
- (3) Communication – Are workers using the available channels to voice their concerns?
- (4) Integration – Are workers integrated into factory affairs in a systematic way?, and
- (5) Awareness – Are workers aware of the policies and procedures governing labor relations in the factory?

Figure 8 displays the results from both the Worker Survey (SCOPE) and the Management Self-Assessment (SCAT). Overall, results

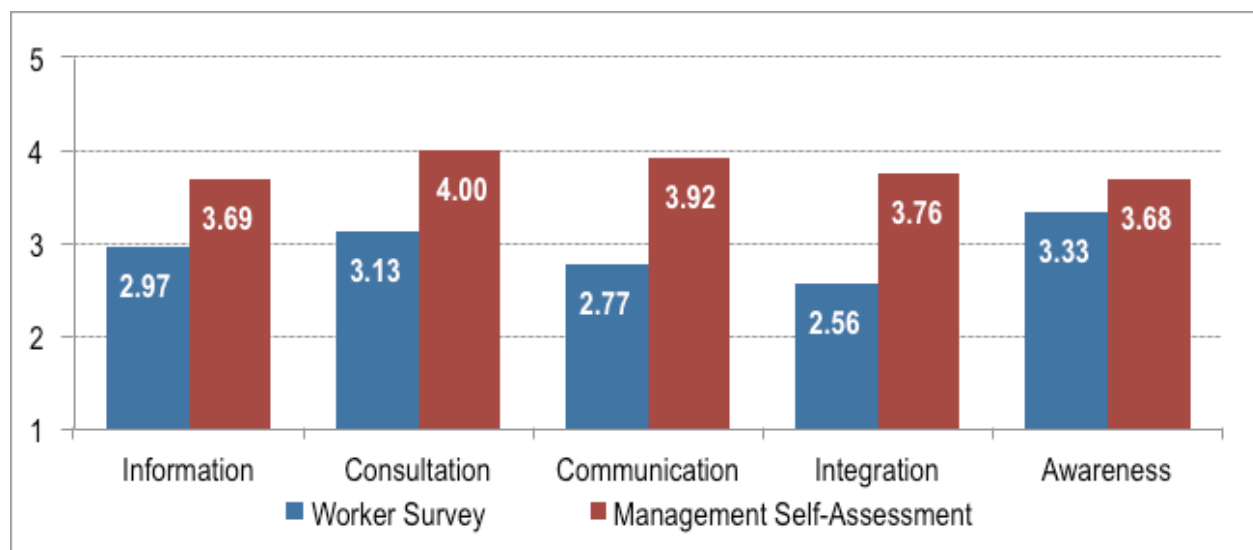
of the management self-assessments are notably higher than those of the workers’, with all the results of management self-assessment higher than 3.5, while none of the worker surveys achieve such a score. In particular, information, communication, and integration were scored below three by workers, and the widest perception gaps were found in integration and communication between the two groups, indicating that concrete efforts are essential to improve communication and integration and that such efforts should be prioritized to close the gap.

#### **Key Findings: Labor Relations**

- Although workers are well informed of the factory’s policies and procedures, more than half (56 percent) do not adequately understand them.
- While workers are consulted on factory affairs, the coverage and frequency of the current consultation can be further enhanced.

<sup>19</sup> In the Management Self-Assessment, Information is assessed from the perspectives of (1) Policy & Procedure; and (2) Training.

Figure 8 Aggregated Baseline Results on Labor Relations



- Among all available communications and grievance channels, those most frequently used by workers include: suggestions boxes (47 percent), talking to line supervisors (34 percent), talking to colleagues (30 percent), and talking to worker representatives or trade unions (27 percent).
- Workers are willing to express themselves and use the current communication channels quite often, but their satisfaction level regarding the grievance handling process and its results can be further improved.
- Workers' integration into factory affairs is ineffective, though some workers who are aware of the worker representative mechanism express that they are satisfied with them.
- Both workers and management need to be educated about channels and tools through which they could improve worker participation and integration into factory affairs.

#### IV.c.2. Results from the Baseline Assessments - Hours of Work

Workers were asked about their perceptions of eight dimensions of hours of work:

**(1) Policy/procedure** – Do workers understand the existing working hours system in the factory?

**(2 & 3) Training and Implementation** – How do the factories distribute their policies and regulations on hours of work, and how do they arrange working hours, including overtime work?

**(4 & 5) Documentation and Communication** – What systems do factory management employ to document and communicate their approach to hours of work,

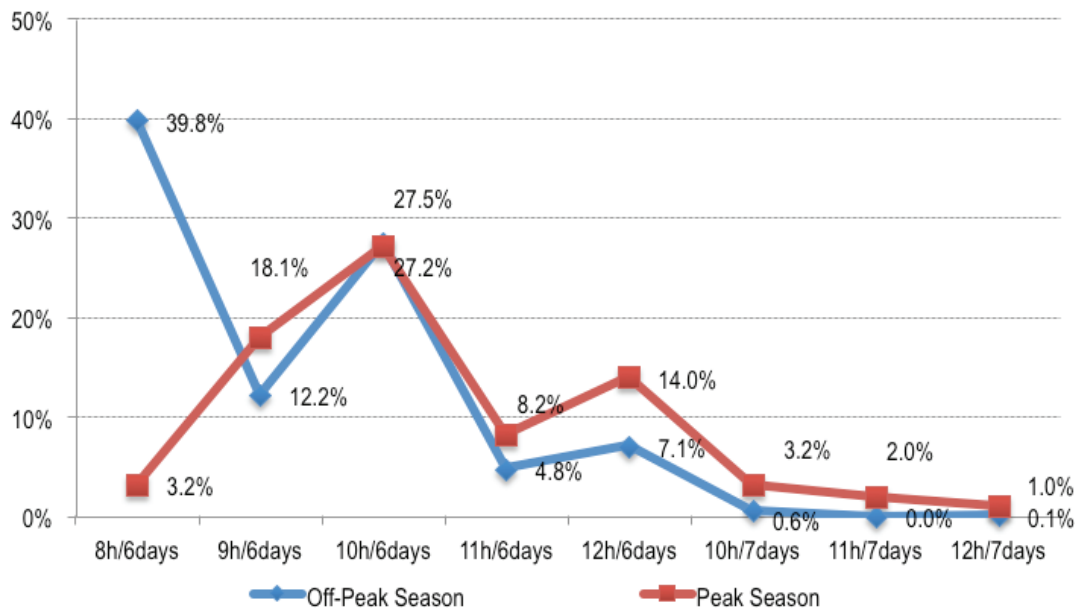
**(6 & 7) Productivity and Risk Factors** – What are the possible causes and risks of excessive overtime? and

**(8) Awareness** – What do management and workers know about the effects of excessive overtime?

Figure 9. Aggregated Baseline Results on Hours of Work



Figure 10. Baseline Assessment - Working Hours During Off-Peak and Peak



As shown in Figure 9, both management and workers gave the dimension of documentation the highest scores; while implementation and awareness got the lowest scores. A stark gap between the two groups was observed in communication and implementation.

#### **Key Findings: Hours of Work**

- All nine factories that were assessed on the hours of work module have established relevant policies that meet local legal regulations and the buyer's code of conduct in regard to hours of work; however, workers have limited knowledge of their legally entitled right to refuse overtime work without fear of any negative consequences.
- Some of the workers in the surveyed factories were found to work excessively long hours and for more than six days a week. A considerable number of workers stated that their salaries would not cover their basic living needs if they were to work less than 60 hours a week.

- Both workers and management of the factories generally lack awareness regarding the risks related to working long hours, which may raise the risk of working excessively long hours. Additionally, workers are not effectively consulted on issues related to hours of work.
- In most factories, training on working hours for management does not cover all related personnel. Also, the training content is limited and superficial as it lacks topics such as: (1) the relationship between long working hours and productivity; and (2) a concrete methodology to reduce working hours.

#### **IV.c.3. Results from the Baseline Assessments - Fair Wages**

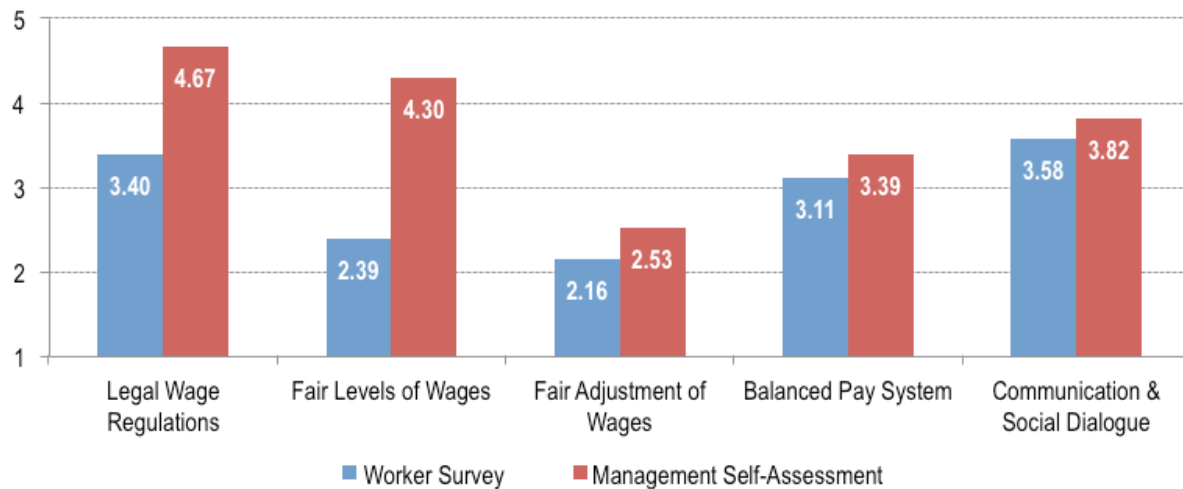
Wage practices were assessed from the following dimensions:

**(1) Legal wage regulations** – Are workers paid on time and in full?;

**(2) Fair levels of wages** – Does the factory's wage levels ensure a decent living standard for workers, one that covers their basic needs while providing some discretionary income?



Figure 11. Aggregated Baseline Results on Fair Wage



**(3) Fair adjustment of wages** – Are wages adjusted if they don’t meet a fair wage level, and in accordance with changes in prices, work intensity, skill levels, and other factors?

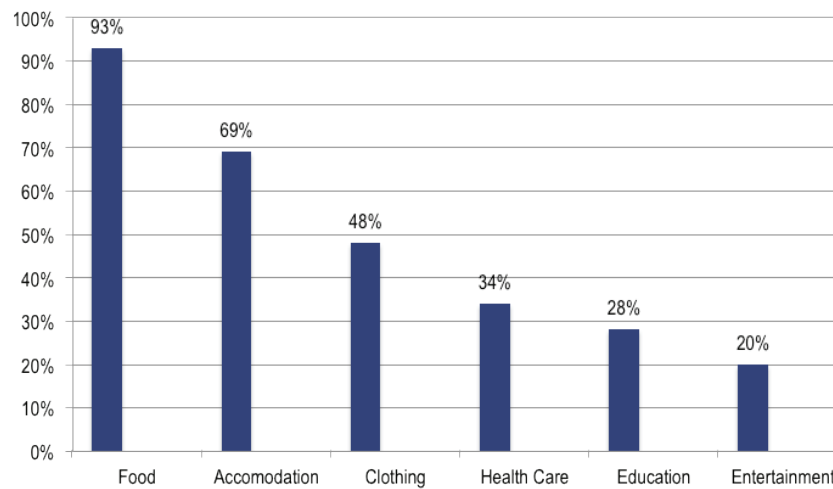
**(4) Balanced pay system** – Is the pay system adequately balanced between time rates and piece rates and between base pay and other benefits; and

**(5) Communication and social dialogue** – Are workers sufficiently informed of wage-related information and encouraged to participate in social dialogue on wages.

Figure 11 shows the results from both the Worker Survey and the Management Self-Assessment. Management rated all assessed dimensions more favorably than workers. Especially, there is a significant perception gap between factory management and workers. It reflects the limited knowledge and understanding workers have about wages. Both groups scored “Balanced Pay System” and “Communication and Social Dialogue” between 3 and 4. In addition, “Fair Adjustment of Wages” was rated the lowest among all assessed dimensions and lower than 3 by both management and workers. Below is detailed analysis of each assessed dimension.

### Key Findings: Fair Wages

- A vast majority (90 percent) of workers reported that they were paid on time and in full. Most assessed factories had no difficulty in complying with the local legal minimum wage.
- Workers’ basic needs are not sufficiently covered by their wages (Figure 12).
- Workers’ wages are not adjusted in accordance with the factory’s performance and changes in price, work intensity, technology, and work skills.
- Assessed factories offer certain forms of bonuses (bonuses related to attendance, team performance, and seniority) and non-monetary benefits to workers.
- Workers at these factories have a low awareness of the following: legal minimum wage, competitiveness of their wages, wage structures, the factory’s business performance, and the role of the trade union. Also, while workers are involved in the process of wage negotiation and determination, it is to a very limited extent.

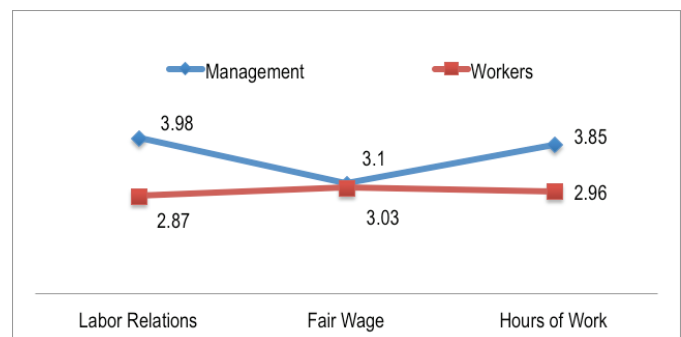
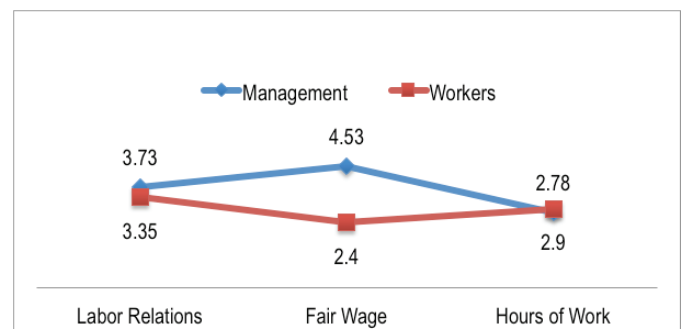
**Figure 12:** Percentage of workers who agree that their wages are able to cover their basic living needs for the following items

#### IV.c.4. General Findings: All Modules

Across all three modules, communication and awareness were the dimensions that need further analysis and remediation. The below figures show the gap in communication and awareness between workers and managers in all three modules. Figure 13 clearly shows that the smallest gap in communication is with regard to fair wages, whereas larger gaps exist with respect to labor relations and hours of work.

The wage-related communications gap is small in part because almost all workers (99 percent) signed individual contracts with their respective factories, Ninety percent of these contracts define workers' wages, and 91 percent of workers receive the same salary as defined in the contract. Additionally, 96 percent of workers receive a pay slip every time they receive their wages. Ninety-two percent of workers know that their factories have a trade union (although 32 percent do not know how the union's leadership is selected, and 22 percent stated that the trade union representatives are selected by the employers).

With regard to hours of work, the communications gap between workers and management appears more stark. A majority (77 percent) of workers report that it is impossible for them to choose their work

**Figure 13. Communication Gap between Workers and Management in terms of topics****Figure 14. Awareness Gap between Workers and Management in terms of topics**

shifts. Similarly, nearly half of workers state that the factories either “never” (37.8 percent) or “rarely” (11.2 percent) consult with them on hours of work arrangements. Further, 56 percent of workers stated that their factories have not informed them that they have the legal right to refuse to work overtime without any negative consequences. More than one-fourth (26 percent) of workers have never been informed of the steps or channels they could use if they felt dissatisfied with their working hours arrangements.

With regard to labor relations, the category for which the communication gap between workers and management appears the widest, workers expressed a lack of trust in existing communication channels and the protection of their privacy. Only about two-fifths (42 percent) of the workers who have filed a suggestion, problem, or complaint feel satisfied with the handling of their concerns,<sup>20</sup> which indicates deficiencies in the design of the current systems. Additionally, nearly two-thirds (62 percent) of workers expressed that their privacy was only partly protected (38 percent) or not protected at all (24 percent) during the grievance handling process. Such results highlight possible reasons why workers’ satisfaction level is low and may prevent potential users from expressing their concerns through the existing grievance system.

With regard to hours of work, both workers and management scored the “Awareness” dimension relatively low, suggesting limited cognizance of the risks related to long overtime work. In particular, only 11 percent of workers recognized that the risk of accidents is higher during overtime hours and about one-fourth (26 percent) of workers think working long hours did not affect their health. Some factories’ SCAT results show

that management does not agree with the propositions that: (1) workers are less efficient at the end of the day as opposed to at the start of their shift; and (2) the risk of accidents is higher during overtime.

With regard to labor relations, in general, both workers and management recognized the importance of worker participation and integration into factory affairs. Worker Survey results indicated that efforts are necessary to further raise workers’ awareness. The majority (84 percent) of workers recognized the importance of joining a worker committee or worker representative body in the factory, and thought that having a collective voice at the workplace is more effective than an individual one (91 percent). Management groups held an open attitude towards their factories’ worker representative bodies, agreeing that incorporating workers’ opinions – individually and collectively -- could improve both the performance of their factories and the stability of their respective workforces.

However, there was a large awareness gap with respect to fair wages. Workers at the assessed factories showed a low awareness of the legal minimum wage, the competitiveness of their wages, wage structures, the factory’s business performance, and the role of the trade union. Also, while workers are somewhat involved in the process of wage negotiation and determination, it is to a very limited extent.

#### **IV.c.5. Commitments from Participating Factories for the Baseline Assessment**

Factories participating in the project displayed varied degrees of commitment to the baseline assessment and the project in general. The range of commitment is depicted in Table 6.

<sup>20</sup> When asked: “Are you satisfied with the handling of the results of a grievance?”, 28 percent of workers felt very satisfied, 14 percent felt mostly satisfied, 30 percent felt more or less satisfied, 22 percent felt hardly satisfied, and 6 percent felt very unsatisfied.

**TABLE 6: LEVEL OF COMMITMENT OF FACTORIES TO THE PROJECT**

|                            |  |
|----------------------------|--|
| Excellent<br>(9 Factories) | <ul style="list-style-type: none"> <li>• Very high initial commitment on SCOPE dates, preparation schedules, worker grouping measures</li> <li>• Create privacy for meetings with workers</li> <li>• Nominate good coordinating staff – good cooperation with project staff in providing flexible solutions</li> <li>• Provide good guide, rationale and time compensation for surveyed workers</li> </ul> |
| Fair<br>(17 Factories)     | <ul style="list-style-type: none"> <li>• Fair commitments on the preparation and actual conduct of the survey</li> <li>• Managers sometimes interfered with workers' responses during interviews</li> <li>• Nominate management and supervisory staff to coordinate worker grouping and provide necessary facilities and support</li> <li>• Cooperative and flexible</li> </ul>                            |
| Poor<br>(5 Factories)      | <ul style="list-style-type: none"> <li>• Low cooperation in survey preparation and implementation</li> <li>• Poor communication with project staff; negative attitudes toward creating privacy conditions for workers during survey</li> <li>• Ineffective top-down communication to mobilize randomly selected workers</li> <li>• Uncooperative and inflexible</li> </ul>                                 |

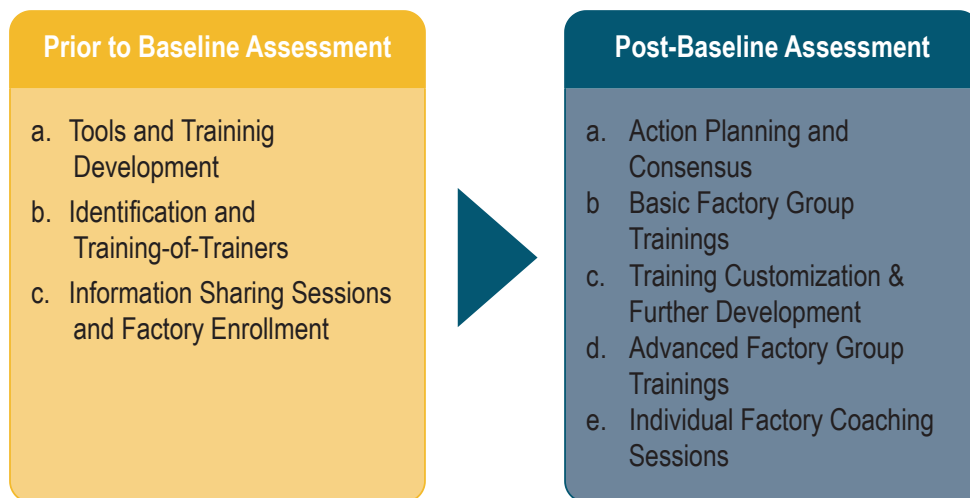
#### IV.d. Capacity Building

Capacity building occurred in two phases, (1) prior to the baseline assessment (refer to the earlier section IV.b.2. for details), and (2) post-baseline assessment (Figure 15). This section primarily covers the capacity building activities conducted after the baseline assessments. Project staff conducted five key capacity building activities: (a) Action Planning and Consensus Building; (b) Basic Factory Group Trainings; (c) Training Customization and Further Development; (d) Advanced Factory Group Trainings; and (5) Individual Factory Coaching Sessions.

##### IV.d.1. Action Planning and Consensus Building with Factories

After the baseline assessments, FLA's Project Chief Technical Advisor spent half a day with each factory to discuss the assessments' results, develop a follow-up action plan, and strengthen commitments to the project among the PPFs' nominated officers. Recommendations made for each module are presented in Box 4.

**Figure 15: Key Capacity Building Activities**



## **BOX 4: RECOMMENDATIONS MADE TO THE FACTORIES AFTER THE BASELINE ASSESSMENTS**

### **Labor Relations**

- Improve performance in Information sharing by: (1) developing clear and systematic written policies on worker participation; (2) drafting worker participation training plans; (3) providing training both for management and workers; (4) keeping standard training records and conducting assessments of training efficacy; and (5) ensuring that training content is effectively delivered and that feedback is collected for further improvement.
- Achieve healthy and harmonious communication by: (1) training the grievance handling personnel on problem-solving skills; (2) granting the grievance handling personnel the necessary authority and resources so that grievances can be better handled; (3) making sure that workers' confidentiality is protected and respected during the grievance handling process; and (4) training both management (especially senior management) and workers so as to improve their communication skills and willingness to interact with each other.
- Get workers better integrated into factory affairs by: (1) increasing workers' awareness of the current worker representative body and worker representatives, ensuring that workers better understand their mandate and responsibilities; (2) encouraging worker representatives to become fully involved in workers' daily work and lives; and (3) further boosting workers' trust in management by better communicating factory affairs to workers, such as by delivering meeting results to workers more frequently.

### **Hours of Work**

- Raise workers' awareness of their right to refuse overtime work and improve training on the risk of excessively long working hours. Factory management should: (1) communicate written policies that clarify the factory's policies on hours of work to all workers; and (2) ensure that there is no involuntary overtime work.
- Review the current working hour arrangements and optimize the wage structure. Management should review the current working-hour system and make production plans that are suitable and realistic for their factory's capacity. Make sure the written policy is well implemented in practice. When designing their wage structure, factories should also take into account workers' performance in terms of quality and efficiency of work; subsequently, this may encourage workers to work more productively, instead of working longer hours.
- Improve management training content and ensure that training covers all relevant personnel. It is recommended for factories to offer more comprehensive and regular training to all levels of management on working hours. Training should include: (1) the aspects of the relationship between long working hours and productivity; and (2) the creation of a concrete methodology to reduce working hours.

### **Fair Wages**

- Improve workers' awareness and knowledge of wage-related legal standards and requirements. Project staff strongly advise assessed factories to evaluate their current training programs and to identify the reasons behind workers' lack of awareness. Factory management should examine: (1) if there is sufficient training on: (a) wage-related laws and factory policies, including but not limited to, legal minimum wage and overtime payment; (b) the importance of pay slips and how to read them; and (c) the existing worker representation structures; (2) if workers at all levels are covered by this training; and (3) if the training material is easy to understand.
- Adjust wages on a regular basis to make them better reflect workers' contributions to the factory. Wages should: (1) be adjusted in accordance with factory performance; (2) reward both better individual and collective performance; and (3) reflect changes in work intensity, technology, and skills.
- Strengthen the dialogue between workers and management to improve mutual understanding of wages. With systematic communication, workers could better understand management's perspectives on wage issues; this could eliminate risks caused by misunderstandings between workers and management and reinforce workers' trust in the factory. To achieve this, factories are recommended to: (1) share information with workers: (a) through a variety of communication channels; (b) ensuring that it is on issues that matter to them; and (c) ensuring that the channels are easily accessible; and (2) invest in the existing worker representation structures by: (a) offering them the resources and authority to be well functioning; and (b) involving them in wage-related discussions and decision-making processes.



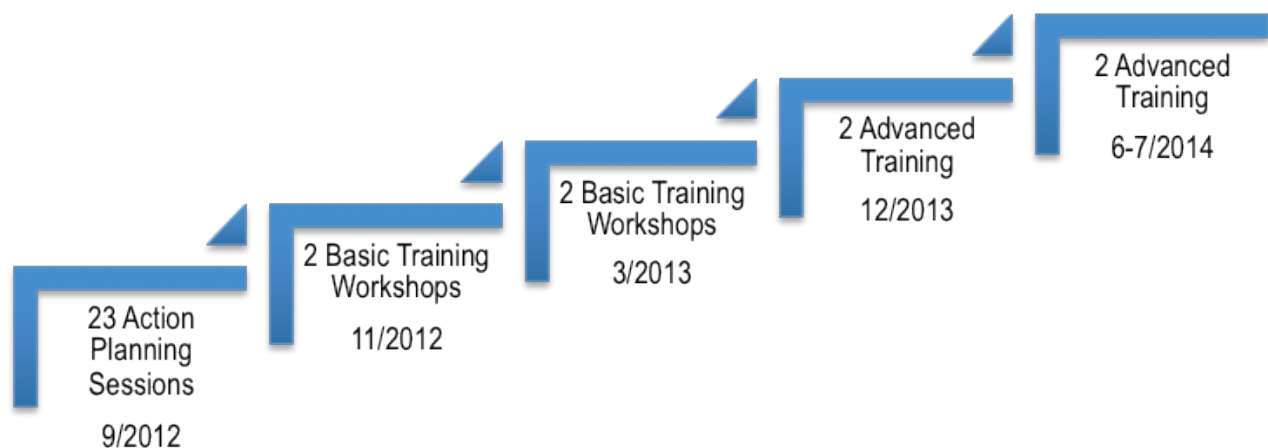
Staff from the participating factories provided specific feedback on their resources, constraints, and capacities to carry out a post-baseline action plan based on FLA recommendations. Project staff made key changes to the capacity building program in order to enhance project efficiency, such as: (1) including relevant local and international updates and examples in the training; (2) incorporating the aggregated baseline assessment results into the training's simulation activities to enhance trainees' participation; (3) conducting opinion polls at training sites to enrich comparative worker-manager perspectives (beyond the baseline assessments) due to the absence of genuine worker representatives and workers at the training venues; and (4) developing and introducing new technical solutions and toolkits from CSOs, based on participating factories' needs, to encourage progress;

Changes were incorporated to account for the following ground realities:

- The baseline assessments of participating factories, as individual companies or collectively, provided a deeper portrait of labor compliance in the apparel and footwear sectors in Vietnam;
- Observations during workers' surveys and basic training showed the shortcomings in human resources and capacity at participating factories in utilizing key FLA tools available prior to baseline assessments; and
- The unavailability of qualified service providers capable of delivering consistent in-factory training and coaching made it difficult to fully apply the package at all participating factories.

Therefore there was need to customize the factory group trainings and the tool application in the factories. The capacity building activities are recapped in Figure 16, with each training session or workshop encompassing all three modules.

**Figure 16:** Capacity building activities post baseline assessment



#### IV.d.2. Basic Factory Group Trainings

During the basic factory group-training phase from 2012 - 2013, all participating factories received training on the Labor Relations and Dialogue modules to provide a foundation for success in whichever module they ultimately chose to participate.

Project staff provided basic training in four factory group-training workshops:

- two days in Ho Chi Minh City in November 2012
- two days in Hanoi in December 2012
- a day and a half in Ho Chi Minh City in March 2013
- a day and a half in Hanoi in March 2013

Three to four participants from each factory attended the trainings, with the following objectives:

- Reconfirm participants' buy-in of the FLA's sustainable compliance approach;
- Strengthen their belief in improving labor-management relations;
- Build their skills and capacities on workplace dialogue through the use of the Dialogue module (see Annex 1);
- Increase understanding about the definitions of work time and length of work, as well as of working time quality and working time arrangements;
- Understand the 12 dimensions of Fair Wage;
- Introduce Progress Tracking Charts (PTC) for Grievances and Complaints (Labor Relations) and Working Hours.

During the factory group trainings, the concept of the Experiential Learning Cycle,<sup>21</sup> was used in enhancing training skills of factory trainers. The experiential

training cycle has four stages: Concrete Experience, Reflective Observation, Abstract Conceptualization, and Active Experimentation (Figure 17).

A potential trainer from each participating factory was asked to make a ten-minute presentation that was video-recorded (Concrete Experience). Then the recordings were played back and the trainers' own and others' feedbacks were presented, followed by open discussions on training skills needed (Reflective Observation). The feedback on the trainers' skills and behavior were summarized for their reference (Abstract Conceptualization).

For the first time, potential trainers at all participating factories had the experience of seeing themselves making presentations, showing their strengths and weaknesses in presentation skills, body language, voice control, and eye contact. They were also given constructive comments on their skills in interacting with trainees, using Power Point materials and organizing group work or stimulation exercises.

Figure 17: Four Stages of the Experiential Learning Cycle



<sup>21</sup> Developed by D.A. Kolb, *Experiential learning: experience as the source of learning and development*. Englewood Cliffs, New Jersey: Prentice Hall, 1984.

### Basic Training on Labor Relations

FLA's existing Dialogue Program (PREPARE) Toolkit<sup>22</sup> was adapted and used to deliver the basic training. Six steps (Figure 18) of the dialogue approach provided the participants with the essential communication, consultation, and negotiation tools;<sup>23</sup> objective setting using the SMART principles (specific, measurable, assignable, realistic, and time-related); and basic communication methods in order to prepare effective labor-management communication strategies at workplace. A communications “web exercise” was carried out to elaborate the need for effective and integrated communication at the workplace.

After the training, participants were expected to be proactive in building trust and communication with their workers for mutual benefit. In addition, factories were provided with specific indicators to measure progress through the use of the Progress Tracking Charts (PTC) (Box 5). The PTC measured the progress made by factories on issues such as the number of grievances brought forward by the workers and number of complaints handled by the management (Box 5).



*Pictures from the basic factory group trainings. Factory management are involved in conducting the meta-plan method and building a communications web.*

**Figure 18:** Six - step Dialogue Process to enhance effective workplace communication, consultation and negotiation



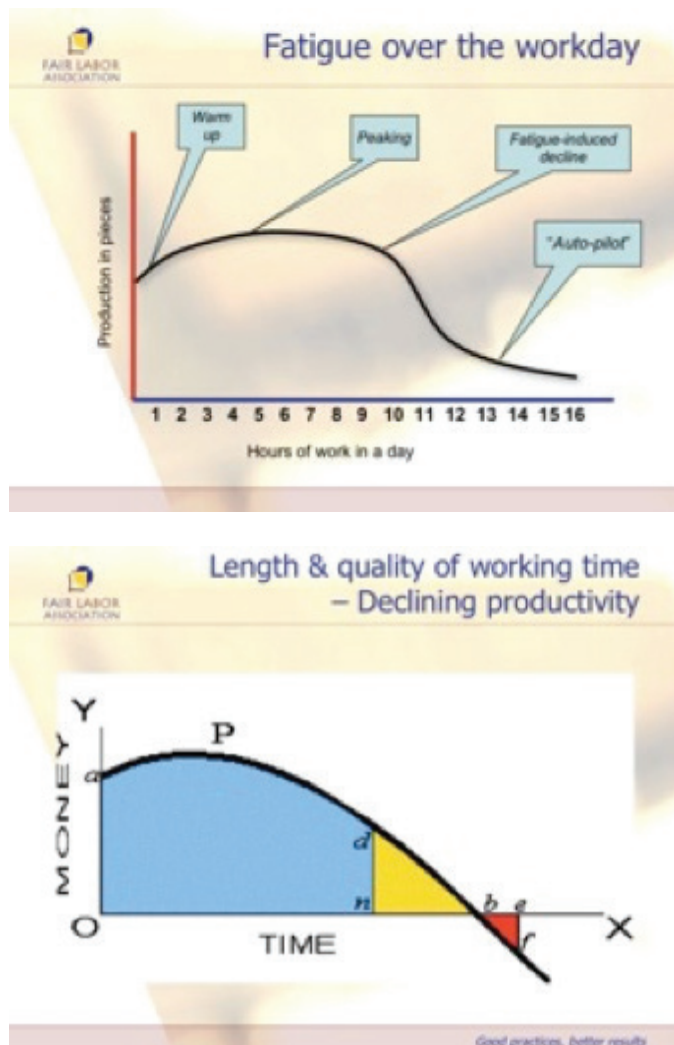
<sup>22</sup> PREPARE – Promotion of Responsible Representation from Workers and Employers. <http://www.fairlabor.org/sites/default/files/documents/prepare-project-bangladesh.pdf>

<sup>23</sup> Included identifying problems with the use of the tools such as Meta-plan method and Voting-by-Dots method; cause analysis with the help of a fishbone or tree diagram; finding common goals by the use of priority matrix and 80/20 rule.

### Basic Training on Working Hours

The training sessions on working hours established a basic understanding of the relationship between hours of work and quality of work, and explained different ways to schedule work time. After the training, the participants were able to link working time with other management goals, and to understand that solutions to their everyday production-related problems are tied to reducing the long hours of work. The participants found it helpful to understand the relationship between hours of work and factory morale, and between working time and productivity (Figure 19).

**Figure 19:** Relationship between Hours of Work and Factory Morale and between Working Time and Productivity



### BOX 5: PROGRESS TRACKING CHART (PTC)

- Creates a tracking system that helps managers monitor grievances, complaints, and suggestions by workers,
- Records issues to enable regular feedback to workers' requests,
- Develops a culture of mutual trust, respect, and self-evaluation within a factory,
- Provides a measure for the issues to be rectified as part of the process as opposed to in the end.

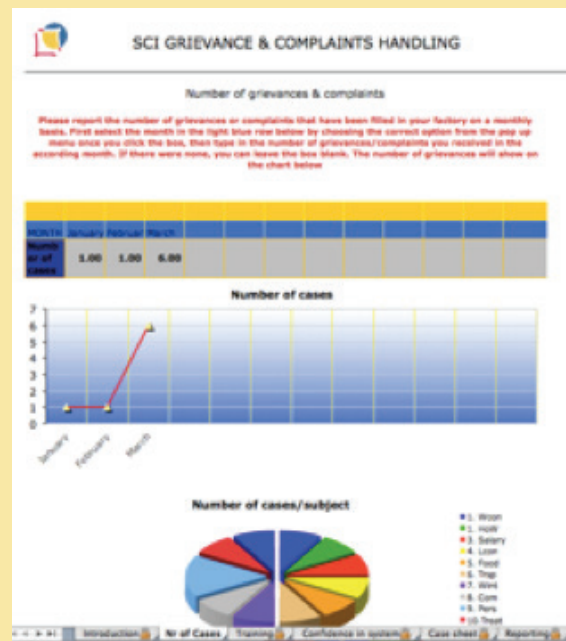
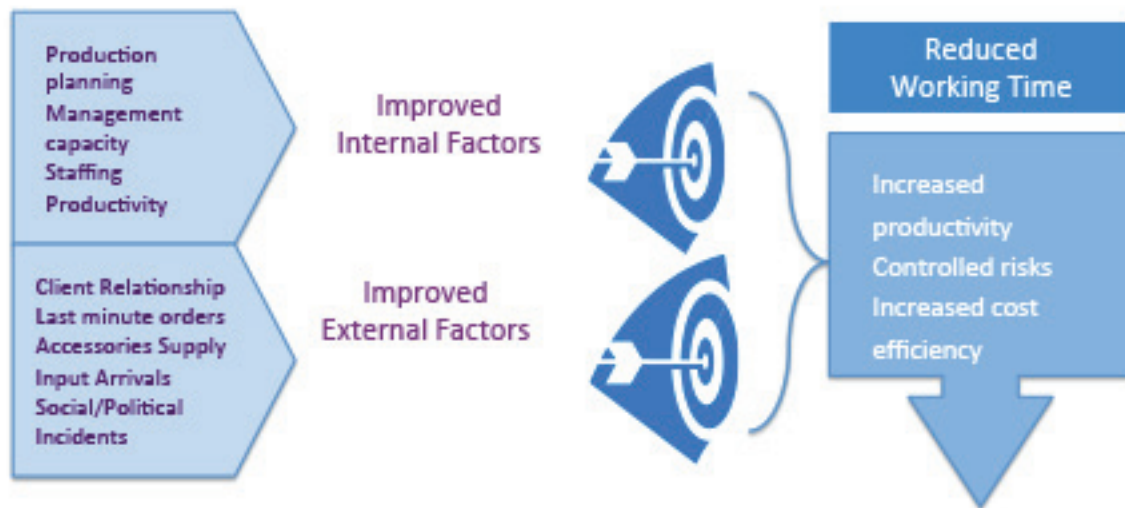




Figure 20: Tracking internal and external factors causing overtime



Factory management found the Progress Tracking Chart on Working Hours to be quite useful in helping them recognize the need to track overtime daily and relate it to other elements such as productivity targets, wages, and identified internal and external risk factors that could lead to excessive overtime. Regular tracking would help in identifying the root causes of excessive overtime and help factory managers in prioritizing problem-solving tasks (Figure 20).

#### ***Basic Training on Fair Wages***

The training sessions on fair wages provided a basic understanding of global wage trends, as well as the “Fair Wages” approach and the rationale for the of Fair Wages dimensions described earlier and how this approach could foster sustainable compliance on wages.

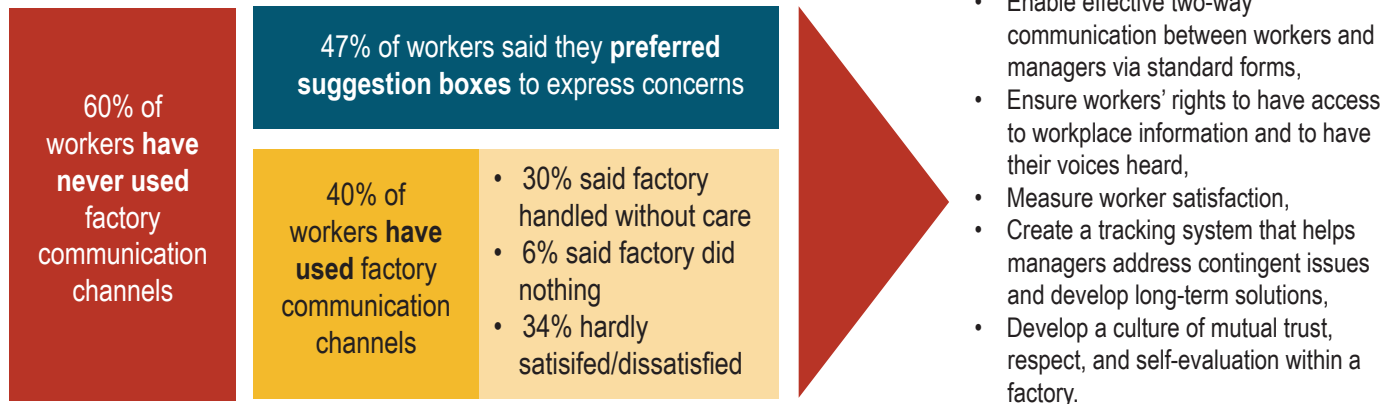
After the training, the participants commented positively on the holistic “Fair Wages” approach – which gave them a comprehensive picture of the many inter-connected and complementary dimensions

of workers’ wages. Participants said they had learned how focusing on only one or a few dimensions would weaken the overall wage-fixing mechanism at the workplace. By the end of the training, a consensus emerged on an intention to look carefully at baseline assessment results on wages in order for each participating factory to start a remediation program.

#### **IV.d.3. Trainings Customization and Further Development**

Based on the basic trainings provided to the factories and the results of the baseline assessments, project staff recognized a number of shortcomings at the factory level. Therefore, project staff further customized of some of the existing FLA tools, and developed new training materials and tools that are elaborated in this section.



**Figure 21:** Facts and Figures about the status of Labor Relations in Factories Lead to EASYFORM**EASYFORM**

With RespectVN (a local civil society organization), the FLA co-developed a standardized system of forms, called EASYFORM, to help factories enhance their direct and indirect communication channels and systematically track labor issues for long-term solutions (Figures 21 and 22). EASYFORM was highly appreciated by users, who particularly praised the innovation in the system to encourage communication via suggestion boxes – the most convenient channel to workers. Project staff provided each participating factory with a DVD offering “Worker Guidance on How to Use EASYFORM Suggestion Boxes,” and a copy of a 30-page guidebook in English and Vietnamese.<sup>24</sup>

**Fair Wage Adaptation**

During the project, the “Fair Wage” indicators were developed and adapted for application in Vietnam. The adaptations were carried out based on an independent study sponsored by RespectVN from August to September 2013. Management from five participating factories and two brand representatives were engaged to review the indicators and comment on their application in factories.

<sup>24</sup> Please find the link below for the Guide to Workers' use of EASYFORM via suggestion boxes: [https://www.dropbox.com/s/pbfnxn2kvqjiy0r/EASYFORM\\_final\\_HI\\_27-7-2013\\_Engsub.avi](https://www.dropbox.com/s/pbfnxn2kvqjiy0r/EASYFORM_final_HI_27-7-2013_Engsub.avi)

**Figure 22:** EASYFORM Process

Accurately representing a “living wage” for workers posed the most salient challenge. The gap was very wide between the perceptions of labor and management on how much take-home pay is sufficient to cover basic needs and provide discretionary income. Management representatives stated that most participating factories paid wages much higher than regional minimum wages and that workers should accept pay levels that reflect their low skills and productivity.

For further analysis, project staff recommended that factories explore; (1) the relationship between worker compensation and their measured productivity and performance; (2) the relationship between total labor cost (including training costs and minimum wages) and factory's revenue or net profit; and (3) the relationship between actual wages and legal minimum wage or existing living wage thresholds.

#### IV.d.4. Advanced Factory Group Trainings

Advanced factory group training sessions encompassing all three modules were conducted as follows:

- one and a half days in Long An in December 2013;
- one and a half days in Hanoi in January 2014;
- a half day in Ho Chi Minh City in June 2014;
- a half day in Hanoi in July 2014.

Three to four participants from each of the 31 factories attended the trainings. The training objectives were to:

- Share information and experience in applying knowledge about the FLA's sustainable compliance methodology and toolkits obtained from the basic training phase among participating factories;
- Introduce key FLA toolkits (EASYFORM, Fair Wage Measurement);
- Build capacity for factories to apply the toolkits and develop their own remediation plans.

#### **Advanced Training in Labor Relations**

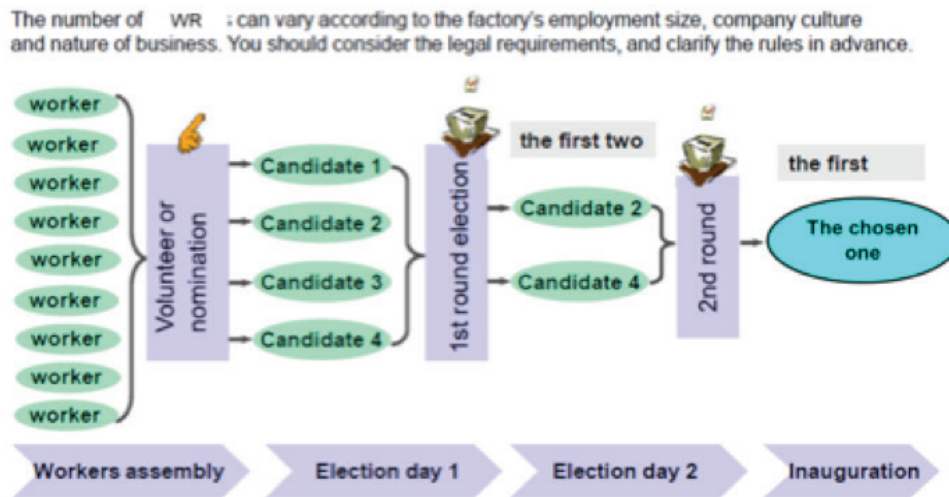
By the end of the advanced factory group training session in Labor Relations, the participants had learned about:

- Application of EASYFORM in daily labor management practices;
- Importance of ensuring EASYFORM's full coverage with multi-access points for workers;
- Importance of taking into account workers' satisfaction with factory responses to workers' grievances, complaints, etc.;
- Creating and implementing a supporting mechanisms to introduce labor-management relations into daily factory management;

A Labor Relations tracking system was introduced at the factory level that complemented the EASYFORM (Figure 23).

**Figure 23:** Labor Relations Tracking System  
(Complements EASYFORM)



**Figure 24:** Process to elect Worker Representatives (WR) in a factory

The person in charge of Labor Relations tracking can be:

- Staff manager
- Trade Union leader
- Production officer

Depending on a factory's situation, each person-in-charge should be given one tracking notebook that includes Case Slips. Each person-in-charge should use the Tracking Notebook daily; then, accumulate data into monthly Progress Tracking Charts (PTC) to monitor Labor Relations practices at the factory.

During the training session, participants were also introduced to an innovative process<sup>25</sup> that could be applied in their factories to fully engage all production workers in electing collective spokespersons who are trusted to act and speak on workers' behalf. See Figure 24 for reference.

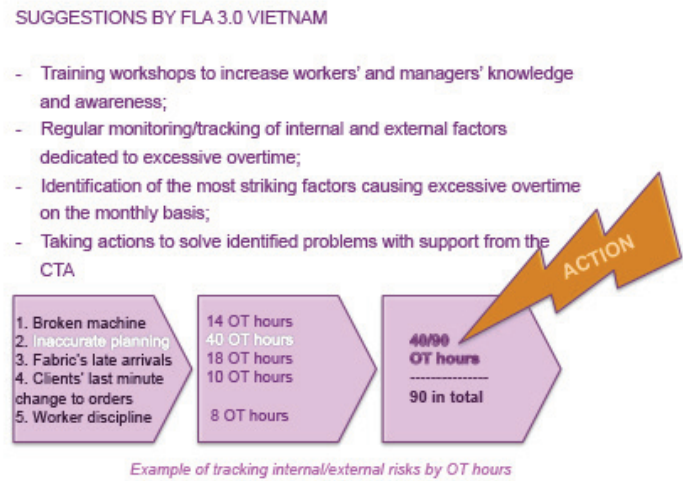
### **Advanced Training on Hours of Work**

During the advanced factory group trainings on hours of work, the participants:

- Made a presentation about their application of the progress tracking chart for hours of work since the tool was introduced;
- Shared experiences with other participating factories about the challenges in applying PTC, including (i) how best to collect data from other production departments within their factories, and (ii) how to measure worker productivity and discipline in lost working time units;
- Identified the most challenging risk factors, especially inaccurate production planning as an internal factor, and clients' changing demands as an external factor (Figure 25);
- Calculated overtime costs following the guidance provided by project staff;
- Were introduced to the new supply chain management tool on working hours.

<sup>25</sup> Developed in collaboration with RespectVN

Figure 25: Breakdown of the total overtime working hours and their root causes



**Advanced Training on Fair Wages**

During the advanced factory group trainings on fair wages, participants learned:

- That determining what constitutes a “living wage” is the most challenging factor within the 12 dimensions of fair wages, and represents the largest perception gap between the surveyed workers and managers (Figures 26 and 27). Factories should conduct workers’ expenditure surveys (including food and non-food consumption, family size, standard working time, worker performance, and other factors) to determine the living wage thresholds;
- That factories interested in achieving a living wage should review their productivity and performance bonuses, and establish communications with workers to create more fair incentives and avoid bias and unfair behaviors from middle-level managers;
- How the national and sectoral minimum wages in Vietnam are determined;
- Why factories should improve working conditions in a holistic and integrated manner, linking fair-wage efforts to hours of work issues and labor relations remediation;

- Why participating factories should closely work with their buyers that promote sustainable compliance to improve workers’ compensation, a key issue behind wildcat strikes in the country.

Figure 26. Comparison of Results on Fair Levels of Wages

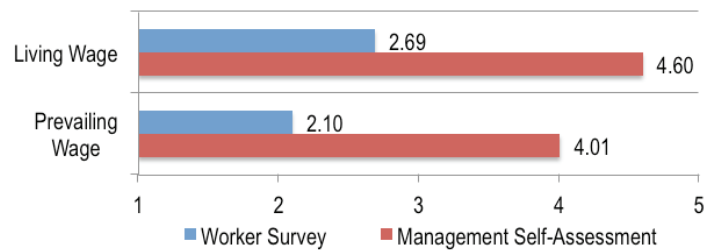
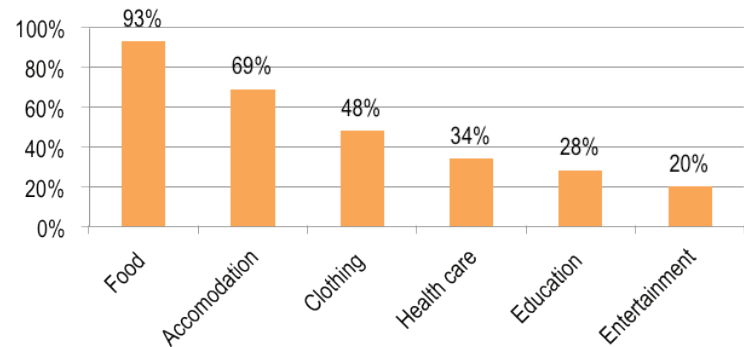


Figure 27. Percentage of workers who agree that their wages are able to cover their basic living needs with regard to:



#### IV.d.5. Individual Coaching Sessions

In addition to the action-planning workshops and factory group trainings, the project staff held numerous coaching sessions for participating factories and companies to help them make progress in the relevant module. These individual coaching sessions were conducted face-to-face, over the phone, and via e-mail. Factories appreciated the attention to detail and the facilitation role that the FLA project staff played during the entire course of the project.

Project staff held five information sessions for the Center for Industrial Relations Development (CIRD), affiliated with the Ministry of Labor, Invalids and Social Affairs (MOLISA). Ten CIRD staff visited five participating factories during impact assessments to learn about the FLA monitoring approach in March and April of 2014. They showed interest in exploring the possibility of using FLA tools to provide inputs for CIRD recommendations to MOLISA. In addition, the Project's Chief Technical Officer provided four half-day training workshops to all CIRD staff, explaining the three module fundamentals, from during May and June of 2014.

#### IV.e. Impact Assessments

Project staff conducted impact assessments at half of the participating factories in the first quarter of 2014. The 15 factories were randomly selected for impact assessment from the 31 factories participating in the project. The impact assessment consisted of the application of two tools – a Management Self Assessment tool (SCAT) and a Worker Survey (SCOPE), comparing the perspectives of management and workers. Individual factory-level impact assessment reports and an aggregated impact assessment report were completed and shared with the relevant factories in July 2014.

#### *Aggregate Impact Assessment Report*

The aggregate impact assessment report compiles the data from the 15 individual reports, comparing the impact assessment results to those of the baseline assessments conducted in 2012 and 2013.<sup>26</sup> The report highlights areas where factories have shown progress since they were enrolled in the project as well as areas that need further improvement. The following tables and graphs present a snapshot of the impact assessment results. For the impact assessments, factory management filled out 15 SCAT questionnaires online, while a team of FLA staff and chosen service providers surveyed 2,114 workers in person in 15 factories. Table 7 presents the demographics of the surveyed workers.

#### IV.e.1. Impact Assessment - Labor Relations

Figure 28 compares results from the Worker Survey (SCOPE) and the Management Self-Assessment (SCAT) from baseline and impact assessments to demonstrate change over time. The impact assessment on labor relations was carried out in six factories. All assessed dimensions except Communication scored higher than three in the impact assessments, suggesting that factory management made some efforts to build better relations with workers, especially in the areas of Information and Integration. Nevertheless, there is still space for improvement. Communication received a low score (2.85) by workers and represents the biggest perception gap between workers and management.

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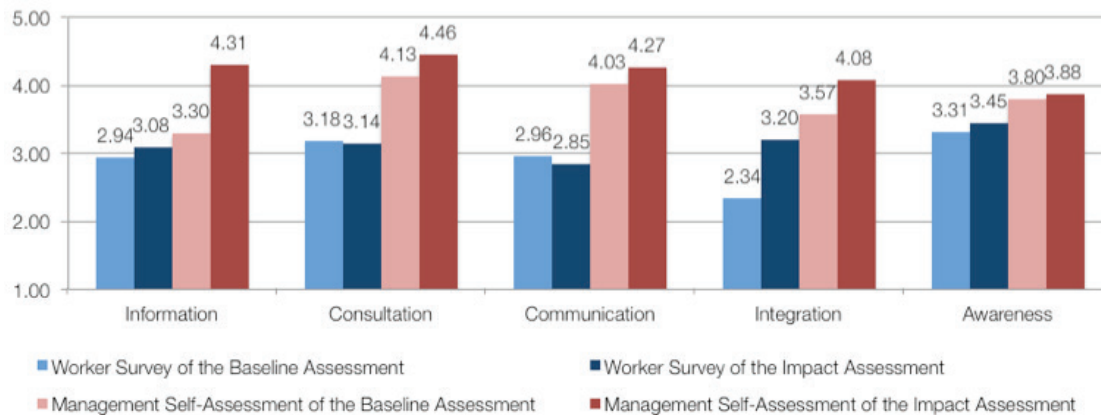
<sup>26</sup> Annex 4.



TABLE 7: CHARACTERISTICS OF SURVEYED WORKERS IN 15 IMPACT ASSESSMENTS

|                         | OVERALL (N=2114) |      | HOURS OF WORK (N=451) |      | FAIR WAGE (N=775) |      | LABOR RELATIONS (N=888) |      |
|-------------------------|------------------|------|-----------------------|------|-------------------|------|-------------------------|------|
|                         | N                | %    | N                     | %    | N                 | %    | N                       | %    |
| <b>Gender</b>           |                  |      |                       |      |                   |      |                         |      |
| Male                    | 452              | 21.4 | 127                   | 28.2 | 179               | 23.1 | 146                     | 16.4 |
| Female                  | 1657             | 78.4 | 324                   | 71.8 | 591               | 76.3 | 742                     | 83.6 |
| <b>Marital Status</b>   |                  |      |                       |      |                   |      |                         |      |
| Single                  | 521              | 24.6 | 128                   | 28.4 | 204               | 26.3 | 189                     | 21.3 |
| Married                 | 1525             | 72.5 | 312                   | 69.2 | 543               | 70.1 | 670                     | 75.5 |
| Divorced                | 54               | 2.6  | 9                     | 2.0  | 21                | 2.7  | 24                      | 2.7  |
| <b>Migrant or Local</b> |                  |      |                       |      |                   |      |                         |      |
| Local                   | 1166             | 55.2 | 299                   | 66.3 | 429               | 55.4 | 438                     | 49.3 |
| Migrant                 | 919              | 43.5 | 145                   | 32.2 | 330               | 42.6 | 444                     | 50.0 |
| <b>Education</b>        |                  |      |                       |      |                   |      |                         |      |
| No Schooling            | 17               | 0.8  | 6                     | 1.3  | 3                 | 0.4  | 8                       | 0.9  |
| Primary School          | 194              | 9.2  | 30                    | 6.7  | 52                | 6.7  | 112                     | 12.6 |
| Middle School           | 1037             | 49.1 | 203                   | 45   | 335               | 43.2 | 499                     | 56.2 |
| High School             | 717              | 33.9 | 179                   | 39.7 | 306               | 39.5 | 232                     | 26.1 |
| Vocational School       | 109              | 5.2  | 28                    | 6.2  | 53                | 6.8  | 28                      | 3.2  |
| College/University      | 32               | 1.5  | 5                     | 1.1  | 24                | 3.1  | 3                       | 0.3  |

Figure 28: Comparison of Baseline and Impact Assessment results on Labor Relations



Even though factory management has made efforts to improve relationships with workers, project staff suggest further actions, such as: (1) informing workers about the factory's policies and encouraging them to participate in factory matters; (2) consulting workers on issues that are of particular relevance to them; (3) facilitating the use of available channels through which workers could raise their concerns; and (4) making efforts to integrate workers systematically in the decision making process.

Two of the six assessed factories confirmed that they have started using the two remedial tools provided to them during the course of the project - EASYFORM and the complementary Labor Relations Tracking System. The aggregate results demonstrate the positive impact of these tools in narrowing down the communication gap between management and workers (48 percent) who reported previously hiding their identity while demanding their rights and benefits.

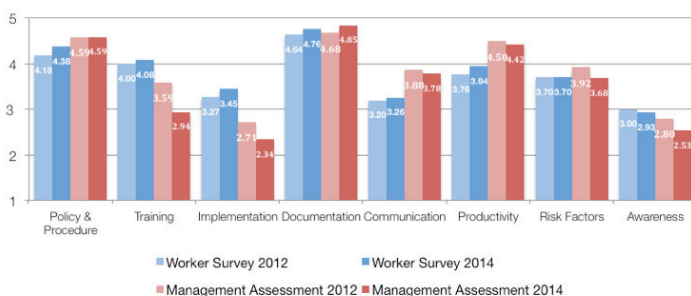
Not all factories have used the tools and made changes in their relationship with workers, because of individual resource constraints. Four of the six surveyed factories are either piloting the tools or are inconsistent and irregular in their application. Reasons include: (1) lower commitment of top management; (2) factories lack human resources to set up a task force and make other changes needed to support a well-functioning Labor Relations Tracking System; and (3) lack of skills of the labor relations leader to follow up and resolve workers grievances and disputes.

#### IV.e.2. Impact Assessment - Hours of Work

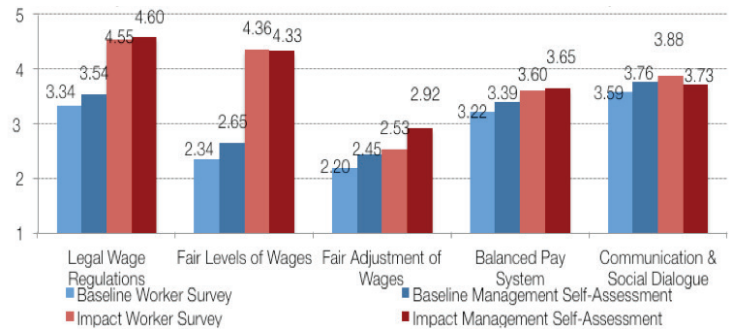
The impact assessment for hours of work was conducted in three factories. With the exception of the category of “Awareness,” workers reported progress in all dimensions of this module. Management reported no significant progress in any dimension.

The impact assessment at the three factories indicates little change, compared to the baseline assessment, with perception gaps remaining between workers and management regarding the factories’ Hours of Work Implementation and Training systems. Factory management indicated that the Hours of Work Progress Tracking System provided to the factories as part of the project’s technical assistance helped improve the factories’

**Figure 29:** Comparison of Baseline and Impact Assessment results on Hours of Work



**Figure 30:** Comparison of Baseline and Impact Assessment results on Fair Wages



systematic risk management. Factories are still looking for more practical and direct tools to make the system work. For example, factories are looking for standardized forms that they can use to collect and track all data related to hours of work from relevant factory departments such as quality control, production planning, and others (Figure 29).

#### IV.e.3. Impact Assessment - Fair Wages

Six factories were assessed on several dimensions of internal wage practices, as depicted in Figure 30. The assessment was intended to determine to what extent: (1) workers are paid on time and in full; (2) factories’ wage levels are able to provide a decent living standard for workers; (3) wages are adjusted to reach a fair wage levels; (4) the pay system is properly balanced; and (5) workers are adequately informed of wage-related information and encouraged to participate in social dialogue regarding wages.

Compared to the baseline assessments, workers reported marginal improvement (0.2-0.3) in all dimensions. Management reported scores in the impact assessment similar to the baseline assessment scores in the dimensions of Legal Wage Regulations, Fair Level of Wages and Balanced Pay System, with a marked increase (0.4) in Fair Adjustment of Wages. Management scores decreased in the Communication and Social Dialogue category.

Based on the comparative results, there is room for improvement on all dimensions of fair wages, especially on Fair Levels of Wages and Fair Adjustment of Wages - the dimensions workers continue to score below 3. The perception gap between factory management and workers remains most significant for Fair Levels of Wages. Nearly half (48 percent) of surveyed workers report that their wages are insufficient to cover their basic living needs. The majority of respondents stated that their wages are able to cover food (92 percent), accommodation (71 percent) and clothing (56 percent) but less than half say their wages will cover health care (41 percent), education (37 percent), and entertainment (21 percent).

#### IV.e.4. Other Findings – Workers’ Tendency to Leave the Factory

Similar to the baseline assessment Worker Survey results, workers held a generally positive view of their relationship with the factory during the impact assessment. Most (83 percent) workers said they planned to stay at their respective factory in the near future; when that timeframe is extended to 12 months, 63 percent said they planned to stay, with 29 percent less likely to stay. (See more in Figure 31).

Figures 32 and 33<sup>27</sup> list the reasons that workers would choose to either stay with or leave the factory. Similar to the findings of the baseline assessment, reasonable working hours and satisfaction with wage levels are the main reasons participants choose for staying in the long term, whereas “family issues” is the top reason for leaving in the short term. Compared with the baseline assessment results, more workers will leave the factory due to family issues and for other jobs not in factories in the short term.

<sup>27</sup> Percentages shown in Figure 33 reflect the opinions of those who are considering leaving the factory in a short period of time. Percentages shown in Figure 34 reflect the opinions of workers planning on staying at the factory for the next 12 months.

Figure 31: Tendency to Leave the Factory

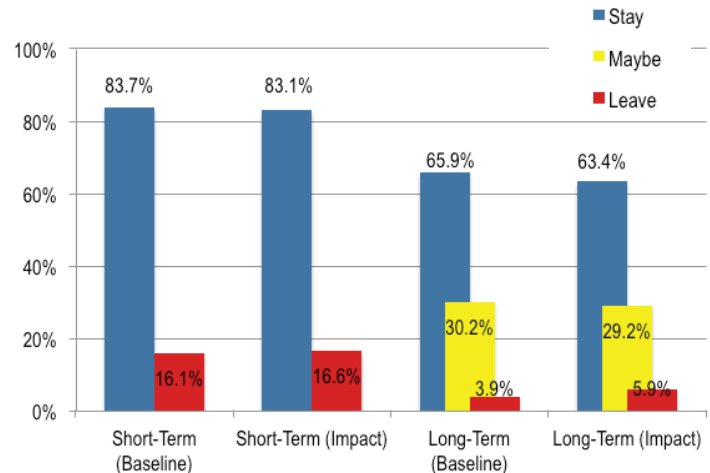


Figure 32: Reasons for Leaving the Factory in the Short Term

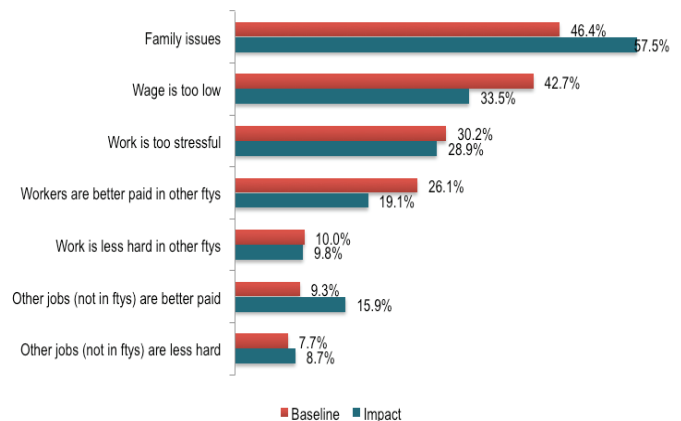
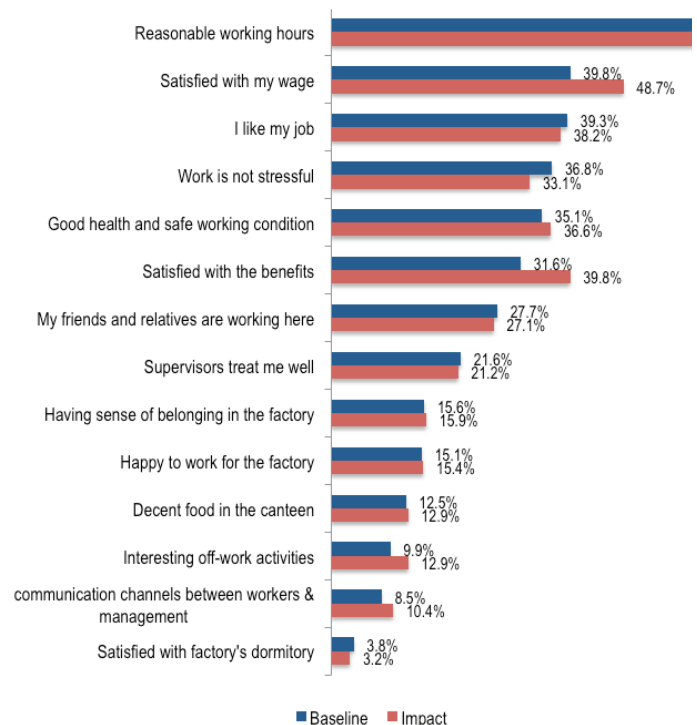


Figure 33: Reasons for Staying at the Factory



At the end of each of the 15 impact assessment reports and the aggregate report, the FLA made recommendations for each of the three assessed issues. The outcomes and future actions were further addressed during the two Advanced Training Workshops and the Stakeholder Meetings held in July 2014.

#### **IV.f. Stakeholder Engagement and Consultations**

During the period from 2009 to 2014, project staff held nine multi-stakeholder meetings as part of the project implementation plan. Most multi-stakeholder consultation meetings were held alongside factory group trainings for cost-efficiency.

- two stakeholder consultations were held in 2009 and included two half-day meetings in July 2009 in Hanoi and Ho Chi Minh City;
- one tripartite stakeholder meeting was held in 2011 in Hanoi;
- three stakeholder consultations were held in 2012 and included one half-day project launch meeting in April 2012; one-half day meeting in Ho Chi Minh City in November 2012; and one two-day meeting in Hanoi in December 2012;
- one half-day stakeholder consultation was held in December 2013 in Long An;
- one stakeholder consultation was held in 2014 in Hanoi in January 2014;
- one final half-day Project End Stakeholder Meeting in Hanoi in July 2014.

##### **IV.f.1. Stakeholder Consultations held in 2009**

Two project launch multi-stakeholder roundtables were held in Hanoi on July 7, 2009 and Ho Chi Minh City on July 9, 2009. The roundtables were conducted for the following purposes:

- To introduce the current compliance landscape in Vietnam and the

importance of labor standards and labor relations in the country;

- To present an overview of the FLA, with a particular focus on its sustainable compliance methodologies; and
- To engage in a multi-stakeholder dialogue and consensus building to get agreement on priority issues and root-causes of noncompliance in the form of a monitoring matrix (also see section IV.b.1 earlier in this report) and develop strategies to address these issues.

##### **IV.f.2. Stakeholder Consultations held in 2011**

A half-day tripartite consultation was held on June 7, 2011 to further introduce the FLA and to get buy-in from tripartite stakeholders on the project's advocacy component. This consultation was part of the application for permission to carry out the project required by the Government of Vietnam. At the conclusion of the meeting, the tripartite stakeholders, including the Ministry of Labour, Invalids and Social Affairs (MOLISA), the Vietnam General Confederation of Labor (VGCL), and the Vietnam Chamber of Commerce and Industry (VCCI):

- Expressed support for the project's objectives and technical assistance plans;
- Indicated that a new component on advocacy would represent an improvement compared to the Better Work Project;
- Recommended limiting the geographic coverage of the project and requested further clarification of the similarities and differences between the FLA's project and other projects.

This consultation expedited the consideration process of the project by the government. Six months later, the Prime Minister of Vietnam officially approved the project.<sup>28</sup>

<sup>28</sup> <https://www.youtube.com/watch?v=VrjpsYM5UrE&feature=plcp>



#### IV.f.3. Stakeholder Consultations held in 2012

A stakeholder consultation meeting on April 11, 2012 served as the official project launch. Approximately 70 guests attended the meeting representing more than 30 stakeholder organizations. The Vice Chairmen from VCCI and VGCL made speeches emphasizing their support for the initiation of the project in Vietnam. This signaled the emergence of collaboration between Trade Union Organizations and CSR initiatives that had not existed in Vietnam before.<sup>29</sup>

The other two meetings were held in the same year in November in Hanoi and December in Ho Chi Minh City. A total of 160 participants attended both events, representing local and national governmental agencies, business associations, local and international NGOs, brands, and factories, including some that were not participating in the project. The Vice Director of the Worker and Union Institute, VGCL, was invited as a guest speaker.

#### IV.f.4. Stakeholder Consultations held, 2013 - 14

Two multi-stakeholder meetings were held alongside factory group trainings in December 2013 and January 2014 in Long An and Hanoi, respectively. A total of 145 participants attended both events. They represented provincial and national government labor agencies, labor federations, local business associations, brands and factories participating in the project. One of the managers from a supplier participating in the project from Long An was invited to Hanoi to make a presentation on their participation in the FLA Vietnam Project. The meeting drew a great deal of public attention.<sup>30</sup>

#### IV.f.5. Project-End Multi-stakeholder Meeting

The final project-end meeting was conducted

29 Please find coverage of the launch on InvestTV via <http://youtu.be/KSzVqVc9lI0>.

30 Please see the media links below: (1) HTV1 – Hanoi's official TV channel <http://www.youtube.com/watch?v=HabCey2GC0s&feature=youtu.be> (2) VTV1 – Vietnam's official TV <http://www.youtube.com/watch?v=9HVNQTAoss8&feature=youtu.be> (3) Ministry of Labor and Social Affairs' magazine (online) <http://www.idxh.vn/ArticlesDetail/tabid/193/cateid/7/id/11109/language/vi-VN/Default.aspx> (4) Magazine of Enterprises and Integration <http://doanhnghiepv.vn/doi-song/can-xay-dung-dong-thuan-giua-cac-doi-tac-trong-chuoi-cung-ung-det-may-va-da-giay-.html>

on July 18, 2014, and served the dual purposes of sharing project outcomes as well as engaging with key stakeholders. A total of 70 participants from various organizations and several media agencies attended the event. The Vice Minister of Labor, the Canadian Ambassador to Vietnam, and representatives from the U.S. Embassy participated along with a number of representatives from factories and civil society organizations.

The audience present was highly complimentary about the project, indicating appreciation for the project's results, especially: (1) the assessment tools (SCAT/SCOPE) that can help measure how labor relations systems work in Vietnam in practice; (2) key capacity-building programs and tools provided during the course of the project; and (3) the discussion of how unhealthy labor relations in manufacturing factories were related to the anti-China riots in Binh Duong. The comments made during the event were broadcast on national television and published in print media.<sup>31</sup>

The stakeholder engagement activities were successful in raising public awareness of the role of sound labor management relations in respecting international and national labor compliance standards as well as benefiting business performance in unexpected incidents such as the anti-China worker actions that took place in Binh Duong in May 2014, in which five participating factories were affected and companies incurred losses of \$10 - 20 million in damaged property and loss of production.<sup>32</sup>

31 Some coverage can be found on the following links. (1) FLA 3.0 Vietnam on the national television (from the minute 7'40 onwards) <http://vtv4.vn/videodetail/9946> (Vice Minister of Labor Nguyen Minh Huan appreciated FLA 3.0 Vietnam assessment methodology as a helpful tool to measure labor relation health in a company as well as on a national scale). (2) FLA 3.0 Vietnam workshop and issues provided in news <http://vietnamnews.vn/society/257935/worker-dissatisfaction-blamed-for-riots.html> (English newspapers) <http://www.talkvietnam.com/2014/07/worker-inhibition-blamed-for-violence-in-binh-duong/> . <http://baocongthuong.com.vn/doi-thoi/58029/quan-he-lao-dong-o-viet-nam-chua-chac-chan.htm> (Vietnamese newspapers) <http://www.langvietonline.vn/Page/PrintView.aspx?ArticleID=133698> (Vietnamese) <http://www.thesaigontimes.vn/117786/Bao-dong-tai-Binh-Duong-chu-yeu-do-cong-nhan-bi-uc-che.html> (Vietnamese) <http://thegioimoi.vn/Home/ArticleDetail/vn/7/1456/kiem-soat-xung-dot-trong-quan-he-lao-dong.tgm> (Vietnamese)

32 Please watch the stories by factory managers and other parties regarding the anti-China worker movement in Vietnam and the health of labor relations at <https://www.youtube.com/watch?v=1pS272hdSOo>



#### IV.f.6. Ongoing Stakeholder Engagement Activities

Besides the stakeholder consultation meetings, project staff maintained regular communication and dialogue with the organizations listed in Table 8.<sup>33</sup>

**TABLE 8: ORGANIZATIONS WITH WHICH THE VIETNAME PROJECT LAIASED**

| ORGANIZATION   | ENGAGEMENT ACTIVITIES   |
|--|---|
| 1. United States Department of State (DOS)                         | In 2012-2014, five delegations from DOS visited and held meetings with the project staff in Vietnam to discuss project activities, achievements, and challenges.  |
| 2. United States Department of Labor (DOL)                         | A DOL delegation met with the project staff in September 2014 to discuss project outcomes and prospects as part of their trip to Vietnam for Trans-Pacific-Partnership (TPP) negotiations on labor.   |
| 3. Embassy of the United States of America in Vietnam              | Officials from the U.S. Embassy in Vietnam held regular meetings with the project staff and attended key project meetings, including the launch and project-end meetings. US Embassy officials in Vietnam suggested that the FLA present the FLA Vietnam Project activities and outcomes to relevant stakeholders in Washington, D.C., to explore the possibility of follow-on grants to the FLA for continued work in Vietnam.   |
| 4. Vietnam Ministry of Labor, Invalids and Social Affairs (MOLISA) | <p>The Center for Industrial Relations Development (CIRD), affiliated with the Ministry of Labor, Invalids and Social Affairs (MOLISA), had an ongoing relationship with the project:</p> <ul style="list-style-type: none"> <li>A number of training workshops were held for them on Project fundamentals in May and June of 2014.</li> <li>The CIRD Director visited FLA headquarters on April 2014 as part of his trip to Washington, DC for a meeting on the TPP. He met with the FLA President and other staff to discuss possibilities for future cooperation with the FLA, and the FLA President paid a follow visit to him in Vietnam in May 2014;</li> <li>CIRD proposed continued cooperation with the FLA on: (1) developing Vietnam's labor relations profile; (2) piloting FLA tools for sound labor dispute resolution in seven provinces; and (3) seeking funding for new or extended project activities to address labor issues -- one of the most controversial topics in the TPP discussions.</li> <li>Vietnam's Vice Minister of Labor attended the project-end workshop and paid compliments to the FLA project in his speech.</li> </ul> |
| 5. Vietnam Chamber of Commerce and Industry (VCCI)                 | <p>The Sustainable Development for Business (SD4B) component of VCCI was a key counterpart to the FLA Vietnam Project. SD4B joined the FLA in the following activities:</p> <ul style="list-style-type: none"> <li>Preparation of documents and support for project approval by the government of Vietnam;</li> <li>Providing a staff person to work with FLA's Chief Technical Advisor as the Project Coordinating Officer;</li> <li>Supported logistical and administrative aspects of project activities;</li> <li>The SD4B Director attended the FLA Board of Directors Meeting in October 2012 in Seattle to better understand FLA global activities during the process of obtaining government approval for project operation, and made a presentation on the activities of the project in Vietnam.</li> <li>VCCI's Bureau of Employers' Activities suggested a joint study with the FLA on Living Wages in Vietnam in order to support the development of the Minimum Wage Law in 2015.</li> <li>The VCCI Vice Chairman attended most of the FLA workshops as Chairman of the project's Advisory Board.</li> </ul>                                     |
| 6. Vietnam General Confederation of Labor (VGCL)                   | <ul style="list-style-type: none"> <li>The VGCL Vice Chairman attended the Project Launch Workshop to show institutional interest and support for the project.</li> <li>The Department of Social Law and Policy, VGCL, officially recommended a collaboration to pilot-test EASYFORM and the worker representative election processes suggested by FLA in 10 factories in Binh Duong and Ho Chi Minh City.</li> <li>Project staff worked with the Vice Chairman of the Apparel and Textile Labor Federation to call for worker-manager solidarity during the Anti-China worker movements in Binh Duong in May 2014.</li> </ul>  |
| 7. American Chamber of Commerce and Industry (Amcham)              | <ul style="list-style-type: none"> <li>Project staff provided a half-day presentation on the FLA Vietnam Project and recommendations for labor policy reforms during an Amcham-hosted US Ambassador Roundtable regarding the TPP in Lang Co, Hue, Vietnam;</li> <li>Project staff provided a half-day presentation on labor requirements in the TPP for Amcham's manufacturing members of its Ho Chi Minh City Chapter.</li> </ul>  |
| 8. FLA Affiliated Companies  | <ul style="list-style-type: none"> <li>Columbia Sportswear suggested a training on EASYFORM and techniques to handle worker grievances and collective actions for all Columbia vendors and suppliers;</li> <li>Nike suggested joint work on labor policy advocacy;</li> <li>Nike suppliers requested technical support from the project with regard to Living Wage Fixing mechanisms they are considering to adopt in their factories in response to the Anti-China movement in Binh Duong.</li> </ul>  |
| 9. Companies not affiliated with the FLA                           | <ul style="list-style-type: none"> <li>Walmart and Target showed interest in adopting the FLA's sustainable compliance methodology for their suppliers; **Microsoft suggested a training for their suppliers in Vietnam;</li> <li>Independent manufacturers (VCCI members) requested training on EASYFORM and other tools for their compliance staffs.</li> </ul>   |
| 10. Civil Society Organizations                                    | RespectVN, one of the project counterparts, suggested a joint activity in introducing their software application to promote the use of EASYFORM and in establishing a CSO network in Sustainable Compliance.  |

<sup>33</sup> Please see <http://www.amchamvietnam.com/30443198/vietnam-and-the-tpc-chapter-on-labor-presentation-by-fair-labor-association-vietnam/>

## V. CONCLUSION

The project succeeded in conducting research and collecting empirical data on real workplace conditions with respect to the three issues of: (1) Labor Relations, (2) Hours of Work, and (3) Fair Wages in 31 Vietnamese factories. The project achieved its set objectives and proved that FLA's Sustainable Compliance Methodology is indeed applicable in factories producing in Vietnam.

The FLA Vietnam Project provides a good role model for delivering a practical and effective package of solutions to the current labor relations status quo in Vietnam. Feedback from the participating factories demonstrates that the approach was a welcome change for the suppliers and the government from existing traditional auditing approaches.

Assessment reports highlighting the magnitude of issues and analysis of the root causes provided a foundation for the factories to build their action plans. Coaching, capacity building, and training activities were by far the most effective accomplishments during the project that stakeholders highly appreciated. Many suppliers joined the project without external pressure, and a number of non-FLA affiliated companies recommend the same process and trainings to their suppliers. Through the project we also learned that some basic management functions in the factories – such two-way communication, consultation, or awareness-building for the workers – is lacking. These issues have to be addressed innovatively through the use of communication tools and EASYFORM as opposed to purely classroom training.

The project highlighted that in spite of a number of initiatives in the country, as well as government intervention, holistic solutions have yet to be developed to proactively and effectively prevent and settle labor disputes and strikes that are commonplace in the country. Issues are deep-rooted and the capacity to develop sound labor relations at

all levels is still insignificant. Similarly, while payment of minimum wages is not an issue at the factories, there is a long way to go for suppliers and workers to realize a living wage. This aspect also needs further research and standards setting.

The stakeholder convenings and consultations underpinning all aspects of project activities ascertained that all stakeholders agreed upon any steps taken during the project. They also provided a sound foundation for the FLA project, and improved its credibility amongst local players. Relationships developed with the three main organizations governing labor issues in the Vietnam (Vietnam Ministry of Labor, Invalids and Social Affairs [MOLISA], Vietnam Chamber of Commerce and Industry [VCCI], and Vietnam General Confederation of Labor [VGCL] not only aided existing project work but also provided a way for project activities and learnings to be sustained upon project conclusion.

With respect to follow-up activities, here are few recommendations: (1) Completion of FLA capacity-building packages and further local training-of-trainers in order to meet the needs of suppliers in filling the perceived gaps between their workers and managers. The surveyed suppliers showed their willingness to pay for the training and tool application costs; (2) Development of fresh proposals in response to the need for new technical assistance on conflict and dispute resolutions in Vietnam at the government level; and (3) Establishment of a CSO network on sustainable compliance in Vietnam that will debate issues, identify solutions, and finally provide service to sustain labor compliance in factories.